

SunOpta Inc.  
Form 10-K/A  
March 07, 2018

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

**FORM 10-K/A**  
Amendment No. 1

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

For the fiscal year ended **December 30, 2017**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **001-34198**

**SUNOPTA INC.**

(Exact Name of Registrant as Specified in Its Charter)

**CANADA**

(Jurisdiction of Incorporation)

**Not Applicable**

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

**2233 Argentia Drive, Suite 401**  
**Mississauga, Ontario L5N 2X7, Canada**  
(Address of Principal Executive Offices)

**(905) 821-9669**

(Registrant's telephone number, including area code)

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

| <u>Title of each class</u>                                              | <u>Name of each exchange on which registered</u>       |
|-------------------------------------------------------------------------|--------------------------------------------------------|
| <b>Common Shares, no par value</b>                                      | <b>The NASDAQ Stock Market, Toronto Stock Exchange</b> |
| Securities registered pursuant Section to 12(g) of the Act: <b>None</b> |                                                        |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark 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 the 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, a smaller reporting company, or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☒

Aggregate market value of the common equity held by non-affiliates of the registrant, computed using the closing price as reported on the NASDAQ Global Select Market for the registrant's common shares on July 1, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$765 million. The registrant's common shares trade on the NASDAQ Global Select Market under the symbol STKL and on the Toronto Stock Exchange under the symbol SOY.

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The number of shares of the registrant's common stock outstanding as of February 23, 2018 was 86,805,091.

**Documents Incorporated by Reference:** Portions of the SunOpta Inc. Definitive Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

### EXPLANATORY NOTE

SunOpta Inc. (the "Company") filed its Annual Report on Form 10-K for the fiscal year ended December 30, 2017 (the "Original Filing") with the U.S. Securities and Exchange Commission (the "SEC") on March 1, 2018. The Company is filing this Amendment No. 1 (the "Amendment") to its Original Filing solely to revise the following typographical error in the Report of Independent Registered Public Accounting Firm related to their Opinion on the Financial Statements included in Item 8 of Part II of the Original Filing:

- Under the Basis for Opinion, the first sentence has been corrected to state: These financial statements are the responsibility of the Company's management. In the Original Filing, this sentence stated: The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual report on Internal Control Over Financial Reporting.

In addition, pursuant to the rules of the SEC, the exhibit list included in Item 15 of Part IV of the Original Filing has been amended to contain currently-dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer and Chief Financial Officer are attached as exhibits to this Amendment.

Except as described above, this Amendment does not amend or update any other information contained in the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and other than expressly indicated in this Amendment, the Company has not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing and does not modify or update in any way disclosures made in the original Form 10-K. The Company has included a complete copy of the Original Filing, as amended per above, in this filing.

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**FORM 10-K**  
**For the year ended December 30, 2017**  
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## Basis of Presentation

Except where the context otherwise requires, all references in this Annual Report on Form 10-K for the fiscal year ended December 30, 2017 ( Form 10-K ) to SunOpta , the Company , we , us , our or similar words and phrases refer to SunOpta Inc. and its subsidiaries, taken together.

In this report, all currency amounts presented are expressed in thousands of United States ( U.S. ) dollars ( \$ ), except per share amounts, unless otherwise stated. Other amounts may be presented in thousands of Canadian dollars ( C\$ ), euros ( € ) and Mexican pesos ( M\$ ), as well as British pounds ( £ ). The following table sets forth, for the periods indicated, the rate of exchange for the Canadian dollar, euro, and Mexican peso, expressed in U.S. dollars, based on Bank of Canada exchange rates. These rates are provided solely for convenience, and do not necessarily reflect the rates used by us in the preparation of our financial statements.

| Year | Canadian Dollar |         | Euro    |         | Mexican Peso |         |
|------|-----------------|---------|---------|---------|--------------|---------|
|      | Closing         | Average | Closing | Average | Closing      | Average |
| 2017 | 0.7971          | 0.7708  | 1.1998  | 1.1281  | 0.0509       | 0.0530  |
| 2016 | 0.7448          | 0.7548  | 1.0553  | 1.1066  | 0.0485       | 0.0537  |
| 2015 | 0.7225          | 0.7820  | 1.0859  | 1.1091  | 0.0582       | 0.0631  |

## Forward-Looking Statements

This Form 10-K contains forward-looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as anticipate , estimate , target , intend , project , potential , continue , believe , expect , could , would , should , might , plan , will , may , predict , and words and phrases of similar impact and include, but are not limited to references to future financial and operating results, plans, objectives, expectations and intentions; our ability to implement the four pillars and achieve the objectives of our strategic Value Creation Plan, including realizing our targeted adjusted earnings before income taxes, depreciation and amortization ( EBITDA ), expected benefits from adjusted EBITDA enhancements implemented to-date, and targeted working capital efficiencies; estimated losses and related insurance recoveries associated with the recall of certain roasted sunflower kernel products; anticipated timing for completion of the expansion of our Mexican frozen fruit facility; anticipated timing of the consolidation of our roasted snack operations and related closure of our Wahpeton, North Dakota, facility; other possible operational consolidations; rationalization of assets and operations; business strategies; plant and production capacities; revenue generation potential; anticipated construction costs; competitive strengths; goals; capital expenditure plans; business and operational growth and expansion plans; anticipated operating margins and operating income targets; gains or losses associated with business transactions; cost reductions; rationalization and improved efficiency initiatives; proposed new product offerings; future growth of our business and global markets for our products; and other statements that are not historical facts. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on certain assumptions, expectations and analyses we make in light of our experience and our interpretation of current conditions, historical trends and expected future developments, as well as other factors that we believe are appropriate in the circumstances.

Whether actual results and developments will be consistent with and meet our expectations and predictions is subject to many risks and uncertainties. Accordingly, there are important factors that could cause our actual results to differ materially from our expectations and predictions. We believe these factors include, but are not limited to, the following:

- failure or inability to implement our value creation strategies to achieve anticipated benefits;
- conflicts of interest between our significant investors and our other stakeholders;

disruptions to our business caused by shareholder activism;

product liability suits, recalls and threatened market withdrawals that may arise or be brought against us;

food safety concerns and instances of food-borne illnesses that could harm our business;

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litigation and regulatory enforcement concerning marketing and labeling of food products;

significant food and health regulations to which we are subject;

ability to obtain additional capital as required to maintain current growth rates;

the potential for impairment charges in goodwill or other intangible assets;

the highly competitive industry in which we operate;

that our customers may choose not to buy products from us;

the potential loss of one or more key customers;

changes and difficulty in predicting consumer preferences for natural and organic food products;

our ability to effectively manage our supply chain;

volatility in the prices of raw materials and energy;

the availability of organic and non-genetically modified ingredients;

unfavorable growing and operating conditions due to adverse weather conditions;

an interruption at one or more of our manufacturing facilities;

technology failures that could disrupt our operations and negatively impact our business;

the potential for data breaches and the need to comply with data privacy and protection laws and regulations;

the loss of service of our key management;

labor shortages or increased labor costs;

technological innovation by our competitors;

ability to protect our intellectual property and proprietary rights;

changes in laws or regulations governing foreign trade or taxation;

agricultural policies that influence our operations;

substantial environmental regulation and policies to which we are subject;

the enactment of climate change laws;

fluctuations in exchange rates, interest rates and the prices of certain commodities;

exposure to our international operations;

increased vulnerability to economic downturns and adverse industry conditions due to our level of indebtedness;

restrictions under the terms of our debt and equity instruments on how we may operate our business;

our ability to renew our revolving asset-based credit facility (the Global Credit Facility ) when it becomes due on February 10, 2021;

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ability to meet the financial covenants under the Global Credit Facility or to obtain necessary waivers from our lenders;

our ability to effectively manage our growth and integrate acquired companies;

our ability to achieve the estimated benefits or synergies to be realized from business acquisitions;

exposure to unknown liabilities arising from business acquisitions;

unexpected disruptions in our business, including disruptions resulting from business acquisitions;

our ability to successfully consummate possible future divestitures of businesses;

volatility of our operating results and share price;

that we do not currently intend to, and are restricted in our ability to, pay any cash dividends on our common shares in the foreseeable future;

dilution in the value of our common shares through the exchange of convertible preferred stock, exercise of stock options, participation in our employee stock purchase plan and issuance of additional securities; and

impact of the publication of industry analyst research or reports about our business on the value of our common shares.

All forward-looking statements made herein are qualified by these cautionary statements, and our actual results or the developments we anticipate may not be realized. Our forward-looking statements are based only on information currently available to us and speak only as of the date on which they are made. We do not undertake any obligation to publicly update our forward-looking statements, whether written or oral, after the date of this report for any reason, even if new information becomes available or other events occur in the future, except as may be required under applicable securities laws. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors in Item 1A, Risk Factors, included elsewhere in this report.

## PART I

### **Item 1. Business**

#### **INTRODUCTION**

SunOpta, a corporation organized under the laws of Canada in 1973, is a leading global company operating businesses focused on a healthy products portfolio that promotes sustainable well-being. We are focused on sourcing non-genetically modified ( non-GMO ) and organic ingredients and manufacturing healthy food and beverage products. We operate an integrated field-to-table business model leveraging our global ingredient sourcing platform to process and market non-GMO and organic ingredients for retailers, food manufacturers and foodservice operators. We also manufacture packaged products focused on the high growth healthy beverages, healthy fruit and healthy snacks categories for our retail, foodservice and branded food customers. We believe we are a North American market leader in non-dairy organic aseptic beverages, premium refrigerated private label orange juice, individually quick frozen ( IQF ) organic fruit, healthy premium fruit snacks, and the global sourcing and supply of non-GMO and organic raw materials and ingredients. Our scalable global sourcing platform makes us one of the leading suppliers of non-GMO and organic raw materials and ingredients in the food industry, and provides us leading insights into emerging food and beverage trends. Our product portfolio is strategically aligned with the fast-growing consumer demand for high quality, healthy non-GMO and organic food and beverage products.

Our vertically integrated business model makes us a preferred partner to our retail (e.g., grocery, mass, club, natural and specialty chains), foodservice and branded food customers. We deliver a diverse, innovative portfolio of high quality, food and beverage products supported by our global sourcing platform, scalable operating footprint, manufacturing expertise and commitment to innovation. This platform enables us to consistently supply our customers with a broad range of non-GMO and organic ingredients as well as high quality healthy food and beverage products that cater to the evolving demands of today's consumers. As a leading supplier of non-GMO and organic ingredients to the food industry, we leverage our insights into emerging consumer tastes and preferences to develop innovative new food and beverage products.

#### **Our Product Portfolio**

Our diverse consumer products portfolio utilizes non-GMO and organic raw materials and ingredients that are sourced primarily by our vertically integrated global ingredients capabilities, and consists of three main commercial platforms:

*Healthy Beverages* We offer a full line of aseptic beverages, including non-dairy beverages (including almond, soy, coconut, rice and others), broths, teas and nutritional beverages. We also offer refrigerated premium juices, shelf-stable juices and functional waters. We believe we are the leading North American provider of non-dairy organic aseptic beverages and premium refrigerated private label organic orange juice.

*Healthy Fruit* We offer IQF fruit for retail (e.g., strawberries, blueberries, mango, pineapple, blends and other berries and fruit), IQF and bulk frozen fruit for foodservice (e.g., purées, fruit cups and smoothies), and custom fruit preparations for industrial use. We believe we are the leading North American provider of private label non-GMO and organic IQF fruit.

*Healthy Snacks* We offer fruit snacks (including bars, twists, ropes and bite-sized varieties) and roasted grain and seed snacks. We believe we are a leading North American provider of premium healthy fruit snacks. During 2017, we exited our flexible resealable pouch and nutrition bar product lines and operations, which were formerly part of the Healthy Snacks platform.

Our global ingredients platform is focused on the procurement and sale of non-GMO and organic grains and seeds (including ancient grains and seeds), fruits, vegetables, sweeteners, coffees, nuts and other products as ingredients in

both raw material and processed ingredient forms. In addition to supplying ingredients for our own healthy food and beverage product portfolio, we are a leading supplier of raw materials and processed ingredients to a number of global food manufacturers and foodservice operators. Our vertically integrated model allows us to leverage our scalable and diverse supply of high quality non-GMO and organic ingredients, adding value to a product at multiple stages of the supply chain and delivering comprehensive non-GMO and organic food ingredients and packaged goods solutions to our customers' evolving demands. This model allows us to generate additional revenue from our global ingredients customers by providing them with high quality healthy food and beverage products.

Using our vertically integrated business model, we process non-GMO and organic food ingredients into consumer-packaged products. Our food ingredients are converted from raw materials, and our raw materials are sourced from approximately 5,000 suppliers encompassing approximately 10,000 growers in over 65 countries. Our employees and assets, which include 22 processing and packaging facilities, are principally located in North America and Europe with smaller sourcing and processing operations in Africa and China. Our operations and capabilities provide the flexibility to modify our product portfolio to adapt to the changing consumer needs for non-GMO and organic food and beverage products. As a general principle, we do not own or operate our own farms, retail stores, or extensively market our own consumer brands.

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Our commitment and proactive approach to new product development and innovation drives our ability to introduce new higher margin food and beverage products to the market. The resources of our advanced innovation center in Edina, Minnesota, support our product development activities, with a dedicated team of food scientists, engineers and technicians, who proactively engage customers in creating and developing new products. Our innovation platform supports our leadership position in non-GMO and organic food and strengthens our relationships with our retail, foodservice and contract manufacturing customers.

## **Value Creation Plan**

On October 7, 2016, we entered into a strategic partnership with Oaktree Capital Management L.P., a private equity investor (together with its affiliates, Oaktree ). On October 7, 2016, Oaktree invested \$85.0 million through the purchase of cumulative, non-participating Series A Preferred Stock (the Preferred Stock ) of our wholly-owned subsidiary, SunOpta Foods Inc. ( SunOpta Foods ).

Following the strategic partnership, with the assistance of Oaktree, we conducted a thorough review of our operations, management and governance, with the objective of maximizing our ability to deliver long-term value to our shareholders. As a product of this review our management and the Board of Directors developed a Value Creation Plan built on four pillars: portfolio optimization, operational excellence, go-to-market effectiveness and process sustainability. The Value Creation Plan is a broad-based initiative focused on increasing shareholder value through strategic investments made in the people and assets of the Company to deliver sustained profitable growth. We expect the Value Creation Plan to be implemented in phases, and span several years.

As part of the first phase of the Value Creation Plan, we are targeting implementation of \$30 million of productivity-driven annualized enhancements of adjusted EBITDA, in the first phase of the plan, to be implemented over 2017 and 2018. During fiscal 2017, these adjusted EBITDA benefits were offset by expenses associated with the Value Creation Plan, including structural investments made in the areas of quality, sales, marketing, operations and engineering resources, as well as non-structural third-party consulting support, severance, and recruiting costs. The plan also calls for increased investment in capital upgrades at several manufacturing facilities to enhance food safety and manufacturing efficiencies. Over time, these investments are expected to yield additional improvement in adjusted EBITDA beyond the \$30 million of initial productivity-driven savings. During 2017, we progressed against each of the four pillars of the Value Creation Plan and we believe we are on track to achieve targeted productivity enhancements, while continuing to make the necessary structural investments we believe will accelerate growth and drive long-term value. Progress on each of the four pillars of the Value Creation Plan is highlighted below:

### ***Portfolio Optimization***

The focus of the portfolio optimization pillar is to simplify the business, investing where structural advantages exist, while exiting businesses or product lines where we are not effectively positioned. Highlights include:

Expansion project to add incremental freezing capacity, storage, and retail bagging capabilities to our Mexican frozen fruit facility (which we now wholly-own, following our acquisition of remaining non-controlling interests in July 2017). This project should enable diversification of the fruit varieties sourced from Mexico, and is expected to drive incremental cost savings, in addition to enhanced profitability from retail bagging capabilities.

Expansion project to add a second roasting and processing line at the our organic cocoa facility in the Netherlands. This expansion is expected to approximately double processing capacity in addition to adding new capabilities, all in support of increased demand and future growth opportunities in cocoa.

Addition of a new oil processing line at our Bulgarian sunflower facility, which is expected to drive incremental margins through growth and production efficiency.

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Investment into our roasted snacks capabilities at our Crookston, Minnesota, facility, which also involves the planned closure of our Wahpeton, North Dakota, roasting facility. This expansion is expected to be operational in the third quarter of 2018, which will support further growth of a variety of roasted grains and seeds.

Discontinuation of flexible resealable pouch and nutrition bar product lines and operations in the fourth quarter of 2017, and related closure of our Carson City, Nevada, nutrition bar processing facility.

Consolidation of certain soy and specialty grain volume and closure of a grain-handling facility in Moorhead, Minnesota, in the third quarter of 2017, to enhance facility utilization and reduce operating costs.

Closure of our San Bernardino, California, juice facility in the fourth quarter of 2016.

Consolidation of our ingredients processing operations in the fourth quarter of 2016, and the related closure of a soy extraction facility located in Heuvelton, New York.

Since the initiation of the Value Creation Plan, we have implemented portfolio changes that are expected to yield approximately \$7.9 million of annualized adjusted EBITDA benefits.

### ***Operational Excellence***

The focus of the operational excellence pillar is to ensure food quality and safety, coupled with improved operational performance and efficiency. We expect these efforts to generate productivity improvements and cost savings in manufacturing, procurement and logistics. Highlights include:

Advances in food safety and quality efforts across the entire manufacturing footprint.

Rollout of a new continuous improvement methodology ( SunOpta 360 ) across our network of aseptic beverage facilities, which is helping to drive an expected 20% improvement in output from existing aseptic lines in 2018, in addition to enhanced production capabilities that will add new value-added non-dairy alternatives.

Actions taken to right-size the incoming 2018 fruit crop, in connection with the implementation of new sales and operations planning ( S&OP ) tools within Consumer Products, which is expected to reduce storage costs and lower working capital, and operationally better prepare our frozen fruit operations for the start of the upcoming fruit season.

Incremental counter-seasonal harvest opportunities enabled by the expansion of the Mexican fruit processing operations, allowing procurement to leverage lower cost sourcing alternatives.

Continued identification and implementation of productivity initiatives focusing on manufacturing efficiencies, purchasing synergies and effective supply chain management.

Working capital optimization efforts leading to a significant year-over-year improvement in operating cash flows.

Since the initiation of the Value Creation Plan, we have implemented process improvements and cost savings that are expected to yield approximately \$6.9 million of annualized adjusted EBITDA benefits.

### ***Go-To-Market Effectiveness***

The focus of the go-to-market effectiveness pillar is to optimize customer and product mix in existing sales channels, and identify and penetrate new high-potential sales channels. We expect efforts under this pillar to improve revenue growth and profitability over time. Highlights include:

Continued growth of the pipeline of commercial opportunities across all consumer product platforms, with a growing diversity of opportunities across categories and channels where we are currently under-represented.

Filling of the new position of Chief Customer Officer for Consumer Products, as well as hiring a new head of marketing.

Addition of new commercial talent in the areas of sales, marketing, and research and development, which has furthered the development of control branded products that are expected to enhance access to the foodservice channel.

Creation of a new foodservice distribution network, leveraging third parties, which will support our plan to grow and diversify penetration into the foodservice channel.

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In 2017, we have implemented go-to-market improvements through strategic pricing actions expected to yield approximately \$1.2 million of annualized adjusted EBITDA benefits. In 2018, efforts under the go-to-market pillar are focused on driving incremental sales volume.

### ***Process Sustainability***

The focus of the process sustainability pillar is to ensure we have the infrastructure, systems and skills to sustain the business improvements and value captured from the Value Creation Plan. Broadening the skillset and experience of our leadership team is a critical component to the process sustainability pillar of the Value Creation Plan. Highlights include:

Filling the positions of Chief Executive Officer, Chief Human Resources Officer, Chief Information Officer, Chief Quality Officer, Senior Vice President of Operations and Engineering, and Senior Vice President of Supply Chain, as well as the appointment of a new General Manager to lead our Healthy Fruit platform.

Additional hiring of other management-level positions in the areas of sales, marketing, customer service, engineering, operations, quality, and other functional support services.

Progress on an enterprise resource planning implementation project at the Mexican frozen fruit facility, with expectation that the new system to be operational during the second quarter of 2018.

Restructuring of S&OP process and tools in the frozen fruit operations, which is expected to drive greater discipline and accuracy into the fruit pack plan, ensuring grower commitments are aligned with commercial demand.

Addition of experienced plant and quality assurance managers in several facilities.

Continued focus on customer service and working capital levels as S&OP processes and support systems are refined.

Under new leadership, shifting the focus of the internal audit function towards value-added business process improvements that are designed to support and ensure we sustain improvements made as part of the Value Creation Plan.

In 2018, it is expected that the majority of future adjusted EBITDA benefits achieved under the Value Creation Plan will be focused on the operational excellence and go-to-market effectiveness pillars.

The statements we make in this Form 10-K about the expected results of the Value Creation Plan, including the timing for completion of measures undertaken, expected improvements in earnings, adjusted EBITDA, working capital efficiencies, expected cash flows, and expected costs, are forward-looking statements. Forward-looking statements contained in this Form 10-K are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While we consider these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking statements are also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors are more fully described in the **Risk Factors** section at Item 1A of this Form 10-K. Adjusted EBITDA is a non-GAAP measure that management uses when assessing the performance of our operations. See footnote (3) to the **Consolidated Results of Operations for Fiscal Years 2017 and 2016** table in management's discussion and analysis of financial condition and results of operations at Item 7 of this Form 10-K for a discussion on the use of this non-GAAP measure and for a reconciliation of adjusted EBITDA from loss from

continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure.

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## Governance and Management Transitions

### *Board of Directors*

On November 6, 2017, Derek Briffett was appointed to the Company's Board of Directors, increasing the size of the Board to nine directors. Mr. Briffett also serves on the Company's Audit Committee. Mr. Briffett most recently served as Chief Operating Officer from 2013 to 2015 for Associated Brands, which was acquired by Treehouse Foods, leading operations, supply chain and co-manufacturing sales in addition to finance, information technology and customer service.

### *Management*

Effective January 31, 2018, Colin Smith no longer serves as Chief Operating Officer ( COO ) of Consumer Products, due to his acceptance of a new role at Oaktree. Mr. Smith is a Managing Director and member of the Portfolio Transformation Team at Oaktree, and was appointed COO of Consumer Products in February 2017, following Oaktree's investment in, and strategic partnership with, SunOpta in October 2016. Mr. Smith's position with Consumer Products will be eliminated following his departure. Mr. Smith will continue to act as an advisor to the Company for matters related to the Value Creation Plan.

## ACQUISITION HISTORY

SunOpta has been built through business acquisitions and significant internal growth. The following is a summary listing of business operations that we have acquired and retained since the inception of SunOpta. This summary does not include acquisitions that were subsequently divested.

| Date of Acquisition | Business Operations Acquired                                                                                                        | Reportable Segment                    |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| August 3, 1999      | Sunrich Inc.                                                                                                                        | Global Ingredients                    |
| August 15, 2000     | Certain assets of Hoffman Aseptic                                                                                                   | Consumer Products                     |
| September 18, 2000  | Northern Food and Dairy, Inc.                                                                                                       | Consumer Products/ Global Ingredients |
| March 14, 2001      | First Light Foods Inc.                                                                                                              | Consumer Products                     |
| May 8, 2003         | Kettle Valley Dried Fruit Ltd.                                                                                                      | Consumer Products                     |
| November 1, 2003    | SIGCO Sun Products, Inc.                                                                                                            | Global Ingredients                    |
| December 1, 2003    | Sonne Labs, Inc.                                                                                                                    | Global Ingredients                    |
| September 13, 2004  | 51% of the outstanding shares of Organic Ingredients, Inc. (remaining 49% of the outstanding shares were acquired on April 5, 2005) | Consumer Products                     |
| June 2, 2005        | Earthwise Processors, LLC                                                                                                           | Global Ingredients                    |
| July 13, 2005       | Pacific Fruit Processors, Inc.                                                                                                      | Consumer Products                     |
| November 7, 2006    | Hess Food Group LLC                                                                                                                 | Consumer Products                     |
| April 2, 2008       | The Organic Corporation                                                                                                             | Global Ingredients                    |
| November 8, 2010    | Dahlgren & Company, Inc.                                                                                                            | Global Ingredients                    |
| December 31, 2012   | Organic Land Corporation OOD                                                                                                        | Global Ingredients                    |

|                 |                                                    |                   |
|-----------------|----------------------------------------------------|-------------------|
| March 2, 2015   | Citrusource, LLC                                   | Consumer Products |
| August 11, 2015 | Assets of Niagara Natural Fruit Snack Company Inc. | Consumer Products |
| October 9, 2015 | Sunrise Holdings (Delaware), Inc.                  | Consumer Products |

**SEGMENT INFORMATION**

The composition of our reportable segments is as follows:

Global Ingredients aggregates our North American-based Raw Material Sourcing and Supply and European-based International Sourcing and Supply operating segments focused on the procurement and sale of specialty and organic grains and seeds, raw material ingredients, value-added grain- and cocoa-based ingredients, and organic commodities.

Consumer Products consists of three main commercial platforms: Healthy Beverages, Healthy Fruit and Healthy Snacks. Healthy Beverages includes aseptic packaged products including non-dairy beverages, broths and teas; refrigerated premium juices; and shelf-stable juices and functional waters. Healthy Fruit includes IQF fruits for retail; IQF and bulk frozen fruit for foodservice; and custom fruit preparations for industrial use. Healthy Snacks is focused on fruit snack offerings, and formerly included our flexible resealable pouch and nutrition bar product lines, which we exited in 2017.

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In addition, Corporate Services provides a variety of management, financial, legal, information technology, treasury and administration services to each of our operating segments from our headquarters in Mississauga, Ontario and our administrative office in Edina, Minnesota.

Financial information for each reportable segment describing revenues from external customers, a measure of profit or loss, and total assets for the last three fiscal years, as well as financial information about geographic areas for the last three fiscal years, is presented in note 24 of the Consolidated Financial Statements.

## **Global Ingredients**

### ***Operations and Product offerings Global Ingredients***

Global Ingredients aggregates our North American and international raw material sourcing and supply operating segments focused on the procurement, processing and sale of specialty and organic grains, seeds, fruits, grain- and cocoa-based ingredients, and other commodities, which are used primarily in applications serving the natural and organic food industry. Its operations are centered in Amsterdam, the Netherlands; Edina, Minnesota; and Scotts Valley, California.

Global Ingredients sources raw materials, ingredients and certain grain-based food products from approximately 65 countries around the world, which include:

Organic fruit- and vegetable-based raw materials and ingredients, sweeteners, cocoa, coffees, ancient grains, nuts, seeds and pulses and other organic food products.

Identity preserved ( IP ), non-GMO and organic seeds and grains including soy, corn and sunflower for food applications, with control maintained at every stage of production, from seed selection and growing through storage, processing and transportation.

Seed- and grain-based animal feed and pet food products that originate from select organic and non-GMO soy, corn, sunflower and other commodities.

Global Ingredients also engages in processing and contract manufacturing services that include:

Seed and grain conditioning services for soy, corn and sunflower.

Grain milling for corn, with various granulations and batch sizing.

Coffee and sesame seed processing.

Dry and oil roasting and packaging, including in-shell sunflower and sunflower kernels, corn, soy- and legume- based snacks.

Liquid (concentrates and oil) and dried format seed, grain and cocoa based ingredients utilizing non-GMO and organic soy, corn, sunflower, rice, and cocoa.

Specialty and organic functional ingredients, including maltodextrins, tack blends, flavor enhancing products, including snack coatings, cheese powders and flavor systems.

### ***Competition Global Ingredients***

Food ingredients are considered niche items often sourced, developed or processed for specific customers or industry segments. Global Ingredients competes with large seed, grain, raw material and specialty ingredient suppliers for customers and competes with other companies active in the international commercial seed, grain and raw material

procurement market for supply. Its non-GMO and organic specialty products compete in the smaller niche commercial non-GMO and organic seed, grain and raw material markets. Key to competing in these markets is access to transportation, supply and relationships with producers. Competitors include major food companies with food ingredient divisions, other food ingredient and sourcing companies, and consumer food companies that also engage in the development and sale of food ingredients. Many of these competitors have financial and technical resources, as well as production and marketing capabilities that are greater than our own.

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The international organic food industry is very competitive due primarily to the limited worldwide supply of organic raw materials. Global Ingredients competes with worldwide brokers, traders and food processors for the limited supply of organic raw material ingredients. In many cases, it will enter into exclusive arrangements with growers and/or processors of key strategic commodities to control the reliability of its supply chain.

#### ***Distribution, Marketing, and Sales   Global Ingredients***

As a leading provider of IP, non-GMO and organic, grains, seeds, grain- and cocoa-based ingredients, and other raw materials, Global Ingredients has well established sales and marketing capabilities, including technically oriented sales teams strategically located close to specific geographic sourcing and/or sales regions. Its specialty grains, seeds and other raw materials and ingredients are sold to food manufacturers and producers worldwide, including some of the largest U.S. consumer-packaged food companies. In addition, in our estimation, it maintains one of the largest organic raw material ingredient sourcing and supply networks in the world, working closely to develop and manage global organic supply and link these supplies with diverse customer needs. It also provides procurement and ingredient processing support to the Consumer Products operating segment.

No customers accounted for more than 10% of revenues from our Global Ingredients segment in 2017.

#### ***Suppliers   Global Ingredients***

Global Ingredients has an extensive established IP, organic soy, corn and sunflower grower network in North America, with many relationships existing for over 25 years. It also has a network of growers in Europe, South America, Africa and Asia. Because weather conditions and other factors can limit the availability of raw materials in a specific geography, it continues to focus on expanding production and sourcing capabilities to other parts of the world to ensure supply in years when local production is below normal levels. By diversifying supply, it also has the ability to divert available product based on market demand and customer requirements in order to maximize return.

Organic raw material ingredient suppliers include growers, processors and traders of organic fruit- and vegetable-based ingredients, sweeteners and other food products. The diversity of our supplier base helps to ensure continual supply by providing contra-seasonal solutions to mitigate crop and quality risks. Organic food suppliers are required to meet stringent organic certification requirements equivalent to the U.S. Department of Agriculture ( USDA ) National Organic Program, European Union ( EU ) standards, or others.

#### **Consumer Products**

##### ***Operations and Product Offerings   Consumer Products***

Consumer Products provides healthy and organic food products that are primarily consumer-packaged to retailers, foodservice distributors and major global food manufacturers with a variety of branded and private label products. Consumer Products' packaged food products are categorized into the following three main commercial platforms:

##### **Healthy Beverages**

Aseptic beverages including almond, soy, coconut, rice and other non-dairy beverages, as well as adjacent categories such as broths, teas and nutritional beverages. Specializing in aseptic product offerings, Consumer Products produces a variety of pack sizes, including multi-serve and single-serve formats, all shelf stable with long shelf lives.

Organic and conventional beverage products, including shelf stable and refrigerated juices, specialty beverages, and functional waters. Consumer Products partners with third-party fillers to provide extended shelf life refrigerated packaging formats to its customers.

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Our Healthy Beverage platform operates from an east to west network of three facilities, as well as co-manufacturing relationships that allow us to minimize distribution costs for our customers, maintain redundant back-up plans, and offer reliable, year-round programs.

#### Healthy Fruit

IQF natural and organic frozen fruits and vegetables, including strawberries, blueberries, raspberries, mango, peppers, broccoli, blends and many other items. Consumer Products produces a variety of packaging formats, including tubs, stand-up pouches, cups and polybags to address the needs of its retail and foodservice customers.

Specialty fruit toppings and bases, which are custom formulated to provide unique flavor and texture profiles for a wide range of specialized applications. Applications include fruit bases for yogurts, ice creams, cheeses, smoothies, shakes, frozen desserts, bakery fillings, health bars, various beverages, dressings, marinades, dips and sauces, and fruit toppings for foodservice applications.

Our frozen fruit operations consist of five facilities that extend from central Mexico to California, as well as a production facility in Kansas. Strategically our north to south footprint on the west coast allows us to maximize access to supply of fruit over the course of the full growing season, while our operation in the Midwest serves as a lower-cost launching pad to deliver product to the east coast. Our fruit ingredient operations are located in California.

#### Healthy Snacks

Natural and organic fruit-based snacks in bar, twist, rope and bite size shapes, with the ability to add a variety of ingredients.

Our healthy snack platform maintains bi-coastal production which helps to minimize delivery costs to our customers.

#### ***Competition Consumer Products***

Consumer Products' healthy beverage and healthy snack offerings compete with major food manufacturing companies, as well as a number of other regional manufacturers. Its healthy fruit offerings face competition from both branded and private label fruit providers. It faces competition when securing fruit and vegetable raw materials; however, due to the location of its processing facilities, it is able to source these raw materials from a number of growing regions and suppliers. Integrated sourcing through Global Ingredients, which supplies a number of core raw materials, combined with in-house processing and packaging capabilities, provides Consumer Products with a low-cost advantage over many of its competitors.

#### ***Distribution, Marketing and Sales Consumer Products***

Consumer Products supplies the private-label retail market, including large retailers and club stores, branded food companies, food manufacturers, foodservice distributors, quick service and casual dining restaurants located principally in North America. In addition, it markets branded food products under SunOpta-controlled brands, including Sunrich® Naturals and Pure Nature®. Consumer Products generally conducts its business with customers on the basis of purchase orders and price quotations, without other formal agreements related to minimum or maximum supplies or pricing.

In 2017, Costco Wholesale, Starbucks Corporation and Walmart Inc. accounted for approximately 17%, 15% and 11%, respectively, of revenues from our Consumer Products operating segment and approximately 10%, 9% and 6%,

of our consolidated revenues, respectively. No other customers accounted for more than 10% of revenues from our Consumer Products operating segment in 2017.

***Suppliers Consumer Products***

Consumer Products raw materials are subject to the availability of fruit and vegetable supply, which is based on conditions that are beyond our control. Fresh and frozen fruits, berries, and vegetables are sourced directly from a large number of suppliers throughout the U.S., Mexico and globally, or through Global Ingredients. We believe our scale and location close to growing areas makes Consumer Products an attractive customer for fruit growers.

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Consumer Products also relies on its packaging suppliers to ensure delivery of often unique, portable, and convenient consumer packaging formats. In our aseptic packaging facilities, we specialize in the use of Tetra Pak equipment in a variety of pack sizes and also offer a variety of opening types and extended shelf life ( ESL ) options. Consumer Products also partners with third party fillers to provide ESL and refrigerated packaging formats to its customers.

## **Corporate Services**

Our corporate headquarters is located in Mississauga, Ontario. In addition, centralized information technology, human resources, operations, research and development, legal and financial shared services groups are located in Edina, Minnesota. Employees of Corporate Services provide support services across the organization including management, finance, legal, operations, business development, information technology, research and development, human resources and administrative functions.

## **REGULATION**

We are subject to a wide range of governmental regulations and policies in various countries and regions where we operate, including the U.S., Canada, Mexico, the Netherlands, throughout the rest of the EU, China and Ethiopia. Outside of the U.S., regulations concerning the sale or characterization of food ingredients vary substantially from country to country, and we take appropriate steps to comply with such regulations. These laws, regulations and policies are implemented, as applicable in each jurisdiction, on the national, federal, state, provincial and local levels. For example, we are affected by laws and regulations related to: seed, fertilizer and pesticides; the purchasing, harvesting, transportation and warehousing of grain and other products; the processing, packaging and sale of food, including wholesale operations; and product labeling and marketing, food safety and food defense. We are also affected by government-sponsored price supports, acreage set aside programs and a number of environmental regulations.

### **U.S. Regulations**

Our activities in the U.S. are subject to regulation by various government agencies, including the Food and Drug Administration ( FDA ), the Federal Trade Commission ( FTC ), the Environmental Protection Agency ( EPA ), the USDA, Occupational Safety and Health Administration ( OSHA ), and the Departments of Commerce and Labor, as well as voluntary regulation by other bodies. Various state and local agencies also regulate our activities.

### ***USDA National Organic Program and Similar Regulations***

We currently manufacture and distribute a number of organic products that are subject to the standards set forth in the *Organic Foods Production Act* and the regulations adopted thereunder by the National Organic Standards Board. In addition, our organic products may be subject to various state regulations. We believe that we are in material compliance with the organic regulations applicable to our business, and we maintain an organic testing and verification process. Generally, organic food products are produced using:

agricultural management practices intended to promote and enhance ecosystem health;

no genetically engineered seeds or crops, sewage sludge, long-lasting pesticides, herbicides or fungicides;  
and

food processing practices intended to protect the integrity of the organic product and disallow irradiation, genetically modified organisms or synthetic preservatives.

After becoming certified, organic operations must retain records concerning the production, harvesting, and handling of agricultural products that are to be sold as organic for a period of five years. Any organic operation found to be in violation of the USDA organic regulations is subject to enforcement actions, which can include financial penalties or

suspension or revocation of their organic certificate.

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### ***Food Safety, Labeling and Packaging Regulations***

As a manufacturer and distributor of food products, we are subject to the *Federal Food, Drug and Cosmetic Act*, the *Fair Packaging and Labeling Act* and regulations promulgated thereunder by the FDA and the FTC. This regulatory framework governs the manufacture (including composition and ingredients), labeling, packaging and safety of food in the U.S.

State and local statutes and regulations may impose additional food safety, labeling, and packaging requirements. For instance, the *California Safe Drinking Water and Toxic Enforcement Act of 1986* (commonly referred to as Proposition 65 ) requires, with a few exceptions, that a specific warning appear on any consumer product sold in California that contains a substance, above certain levels, listed by that state as having been found to cause cancer or birth defects. We believe we are in material compliance with state and local statutes and regulations as they apply to our business.

### ***Environmental Regulations***

We are also subject to various U.S. federal, state and local environmental regulations. Some of the key environmental regulations in the U.S. include, but are not limited to, the following:

Air quality regulations    air quality is regulated by the EPA and certain city/state air pollution control groups. Emission reports are filed annually.

Waste treatment/disposal regulations    solid waste is either disposed of by a third-party or, in some cases, we have a permit to haul and apply the sludge to land. Agreements exist with local city sewer districts to treat waste at specified levels of Biological Oxygen Demand ( BOD ), Total Suspended Solids ( TSS ) and other constituents. This can require weekly/monthly reporting as well as annual inspection.

Sewer regulations    we have agreements with the local city sewer districts to treat waste at specified limits of BOD and TSS. This requires weekly/monthly reporting as well as annual inspection.

Hazardous chemicals regulations    Various reports are filed with local city/state emergency response agencies to identify potential hazardous chemicals being used in our facilities.

Storm water    all facilities are inspected annually and must comply with an approved storm water plan to protect water supplies.

### ***Employee Safety Regulations***

We are subject to certain safety regulations, including OSHA regulations. These regulations require us to comply with certain manufacturing safety standards to protect our employees from accidents. We believe that we are in material compliance with all employee safety regulations applicable to our business.

### ***Canadian and Other Non-U.S. Regulations***

Outside of the U.S., regulations concerning the sale or characterization of food ingredients vary substantially from country to country, and we take appropriate steps to comply with such regulations.

In Canada, the sale of food is currently regulated under various federal and provincial laws, principally the federal *Food and Drugs Act* ( FADA ), *Canada Agricultural Products Act* ( CAPA ), and the *Canadian Environmental Protection Act, 1999* ( CEPA ), along with their supporting regulations. Some of the key Canadian regulatory instruments include but are not limited to the following:

*Food and Drug Regulations* (under the FADA) food and drugs are subject to specific regulatory requirements, including composition (such as food additives, fortification, and food standards), packaging, labeling, advertising and marketing, and licensing requirements. New requirements regarding nutrition and ingredient labeling and food color were introduced on December 14, 2016. To the extent the new labeling requirements apply to products manufactured and sold by the Company, we will have a five-year transitional period to adopt them. Amendments dealing with food colour specifications and the removal of synthetic colour certification requirements came into effect immediately.

*Organic Products Regulations, 2009* ( OPR ) (under the CAPA) the OPR require mandatory certification to the revised national organic standard for agricultural products that are to be represented as organic in international and inter- provincial trade, or that bear the federal organic agricultural product legend (or federal logo). Except for certain exceptions and conditions, a U.S.-Canada Organic Equivalence Arrangement is currently in place whereby agricultural products produced and processed in conformity with the USDA National Organic Program are considered to be equivalent to the requirements of the OPR.

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*Canada Consumer Product Safety Act ( CCPSA )* the CCPSA provides oversight and regulation of consumer products with respect to manufacturers, importers, and retailers. It includes, without limitation, the ability to require product recalls, mandatory incident reporting, document retention requirements, increased fines and penalties, and packaging and labeling requirements. While the CCPSA does not apply to food, it does apply to its packaging with respect to safety. It is possible that there will be amendments introduced to the FADA, to capture the essence of the regulatory oversight found in the CCPSA. We have no way of anticipating if and when that may occur.

*Consumer Packaging and Labeling Act ( CPLA )* the CPLA and its supporting regulations outline requirements for packaging and labeling of products, including food products. The CPLA sets out labeling requirements relating to the description of the product, net quantity and dealer information, as well as packaging standards. The CPLA also includes a prohibition against false or misleading labeling.

*Canada Food Inspection Agency Act ( CFIAA )* the CFIAA grants power to the Canadian Food Inspection Agency (the CFIA), which is tasked with the administration and enforcement of certain Canadian food legislation. By virtue of the CFIAA and CAPA, the CFIA has the power to inspect and, if deemed necessary, recall certain products, including fresh fruit and vegetables, processed foods and organic foods, if the Minister believes that such products pose a risk to the public, animal or plant health.

*Processed Products Regulations ( PPR )* (under the CAPA) the PPR regulates the grading, packing and marking of processed products that are produced in Canada for inter-provincial or export trade or imported into Canada. Under the PPR, processed food products are those that are prepared to assure preservation of the food product in transport, distribution and storage. The PPR establishes requirements with respect to the content, preparation, packing and marking of processed food products.

In January, 2017, the Government of Canada published the second version of its proposed *Safe Food for Canadians Regulations ( SFCR )* under the authority of the *Safe Food for Canadians Act ( SFCA )*. Publication of the SFCR was accompanied by a 90-day public consultation period that ended on April 21, 2017. In January, 2018, the CFIA published a report summarizing submissions received pursuant to the proposed SFCR. The final regulations are expected to be published in the spring of 2018. If and when they become effective, the SFCR will consolidate 13 existing Canadian regulations and the food labeling provisions of the CPLA, and thereby establish a comprehensive set of regulations which govern all food sectors subject to CFIAA oversight, including federally registered sectors and food that is destined for import, export or interprovincial trade. Principal elements of the SFCR which are likely to impact the Company include licensing requirements for the import, export and interprovincial trade of food, traceability requirements, reporting requirements and timelines, preventative controls, an export certificate request process, prescribed container sizes and weights for certain products, labeling regulations and standards of identity and expansion of organic certification to service providers and additional products. The licensing requirements will be immediate for sectors such as meat, eggs and other previously federally registered sectors and up to three years for other sectors.

We are subject to Dutch and European Commission ( EC ) regulations and policies. Our European subsidiary, The Organic Corporation ( TOC ), is involved in the sourcing, supplying, processing, marketing, selling and distribution of organic food products and, as such, is subject to standards for production, labeling and inspection of organic products contained in EC Regulation 2092/91 (and its subsequent amendments). TOC is certified by Skal, the inspection body for the production (trading and selling) of organic products in the Netherlands. Products certified as organic by an EU-recognized inspection body, such as Skal, can be marketed within the entire EU. In addition, under the terms of an equivalency arrangement between the U.S. and the EU, organic operations certified to the USDA organic or EU organic standards may be labeled and sold as organic in both the U.S. and EU.

TOC is also affected by general food legislation both at EU and Dutch level relating to product safety and hygiene, among others. TOC is BRC Agents and Brokers certified in the Netherlands and manages a fully computerized system

that manages the traceability of each product. In addition, TOC also considers and abides by EU and local legislation with regard to packaging and packaging waste. TOC is also subject to the regulations and policies of the countries outside of the EU in which it operates, including China and Ethiopia.

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Our frozen fruit processing facility in Mexico is subject to Mexican regulations, including regulations regarding processing, packaging and sales of food products, labor relations and profit-sharing with employees.

## **RESEARCH AND DEVELOPMENT**

Research and development and new product, process and packaging innovation are key priorities of our Company and initiatives are focused on continuous improvement of our existing product portfolios and continuing efforts to improve production process to reduce costs and improve efficiencies, as well as the development of innovative new products. Innovation is a key pillar for us and a necessity in the natural and organic foods categories. We believe our commitment and proactive approach to new product development and innovation is important to our ability to introduce new higher-margin food and beverage products to the market.

Our innovation center located in Edina, Minnesota, supports our product development team of highly trained and experienced food scientists and technologists that are dedicated to the research and development of new product offerings, as well as addressing product development opportunities for our customers. These opportunities include new and custom formulations, innovations in packaging formats, and new production processes and applications. Applications and technical support provided to our customers include all aspects of product development from concept to commercial launch, as well as ongoing manufacturing and processing support.

We continue to develop new products to maximize the capabilities of our aseptic packaging facilities, including the development of non-dairy-based beverages that address the growing consumer demand for beverages that satisfy allergy concerns and provide a unique nutritional profile, as well as broths, teas and nutritional beverages. In addition, we continue to develop new fruit-based beverages, and fruit- and grain-based snacks, as well as innovative fruit ingredient systems for the dairy, foodservice and beverage industries. We are also continually looking to develop new value-added products for our customers that leverage our global sourcing platform.

## **INTELLECTUAL PROPERTY**

The nature of a number of our products and processes requires that we create and maintain patents, trade secrets and trademarks. Our policy is to protect our technology, brands and trade names by, among other things, filing patent applications for technology relating to the development of our business in the U.S. and in selected foreign jurisdictions, registering trademarks in the U.S., Canada and selected foreign jurisdictions where we sell products, and maintenance of confidentiality agreements with outside parties and employees.

Our success will depend, in part, on our ability to protect our products, trade names and technology under U.S. and international patent laws and other intellectual property laws. We believe that we own or have sufficient rights to use all of the proprietary technology, information and trademarks necessary to manufacture and market our products; however, there is always a risk that patent applications relating to our products or technologies will not result in patents being issued, or, if issued, will be later challenged by a third party, or that current or additional patents will not afford protection against competitors with similar technology.

We also rely on trade secrets and proprietary know-how and confidentiality agreements to protect certain technologies and processes. Even with these steps taken, our outside partners and contract manufacturers could gain access to our proprietary technology and confidential information. All employees are required to adhere to internal policies, which are intended to further protect our technologies, processes and trade secrets.

## **PROPERTIES**

We operate 22 processing facilities in seven U.S. states, as well as Canada, Mexico, the Netherlands, Bulgaria, and Ethiopia. In addition, we also own and lease a number of office and distribution locations in the U.S., Canada, Mexico, Europe, Ethiopia and China, and lease and utilize public warehouses to satisfy our storage needs. We also

lease farmland that we sublease to fruit growers. For more details see Item 2. Properties, included elsewhere in this report.

## **ENVIRONMENTAL HAZARDS**

We believe that, with respect to both our operations and real property, we are in material compliance with environmental laws at all of our locations.

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## EMPLOYEES

As at December 30, 2017, we had a total of approximately 1,800 full-time employees (December 31, 2016 – 2,000). We also employ up to 1,700 seasonal employees in the U.S. and Mexico during peak fruit seasons each year. We consider our relations with our employees to be good and have not experienced any work stoppages, slowdowns or other serious labor problems that have materially impeded our business operations.

## AVAILABLE INFORMATION

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the *Securities Exchange Act of 1934* (the Exchange Act), are available free of charge on our website at [www.sunopta.com](http://www.sunopta.com) as soon as reasonably practicable after we file such information electronically with, or furnish it to, the U.S. Securities and Exchange Commission (the SEC) and applicable Canadian Securities Administrators (the CSA).

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

Our business, operations and financial condition are subject to various risks and uncertainties, including those described below and elsewhere in this report. We believe the most significant of these risks and uncertainties are described below, any of which could adversely affect our business, financial condition and results of operations and could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. In such case, the trading price of our common stock could decline, and our shareholders may lose all or part of their investment. There may be additional risks and uncertainties not presently known to us or that we currently consider immaterial. Consequently, you should not consider the following to be a complete discussion of all possible risks or uncertainties applicable to our business. These risk factors should be read in conjunction with the other information in this report and in the other documents that we file from time to time with the SEC and the CSA.

#### **Risks Related to Our Value Creation Plan, Significant Investors and Shareholder Activism**

*The implementation of our Value Creation Plan could pose a number of risks that could have an adverse impact on our business, financial condition and results of operations*

Following our strategic partnership with Oaktree, we conducted a thorough review of our operations, management and governance, with the objective of maximizing our ability to deliver long-term value to our shareholders. As a product of this review, our management and the Board developed a Value Creation Plan built on four pillars: portfolio optimization, operational excellence, go-to-market effectiveness and process sustainability. The Value Creation Plan is a broad-based initiative focused on increasing shareholder value through strategic investments made to the people and assets of the Company to deliver sustained profitable growth. We expect the Value Creation Plan to be implemented in phases, and span several years. In connection with the Value Creation Plan, we are implementing a number of operational actions to improve our profitability and streamline our operations for long-term success. These actions may include rationalization or consolidation of certain of our operations or facilities, reinvestment in certain of our operations or facilities, investments in personnel, processes and tools, as well as other cost saving initiatives. These actions could consume capital resources and could also give rise to impairment and other restructuring charges that would be both cash and non-cash in nature, and these charges could be material.

The implementation of the Value Creation Plan could have a material impact on our operations, strategy, governance, management and future prospects. For example, in 2016, we announced the closures of our San Bernardino, California, juice facility and Heuvelton, New York, soy extraction facility, resulting in impairment charges amounting to \$13.2 million. Similarly, in 2017, we announced the exits from flexible resealable pouch and nutrition bar product lines and operations, as well as the consolidation of our roasted snack operations, resulting in impairment charges of \$18.2 million relating to these assets. Certain actions that we take may lead to additional write-downs of assets and/or

charges in future periods. In addition, we cannot predict whether the actions we take will achieve our goals of improving our profitability and financial performance and delivering long-term value to our shareholders. The ongoing implementation of our Value Creation Plan could expose us to a number of other risks, including the following:

distraction of management;

difficulties in hiring, retaining and motivating key personnel as a result of uncertainty generated by the review and the implementation of any resulting recommendations;

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difficulties in maintaining relationships or arrangements with customers, suppliers and other third parties; and

increases in general and administrative expenses associated with the need to retain and compensate business and recruiting consultants and other advisors.

The occurrence of any one or more of the above risks could have an adverse impact on our business, financial results, liquidity and financial condition.

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

As at December 30, 2017, Oaktree held a 19.8% voting interest in the Company through its holdings of 11,333,333 special voting shares and 8,092,699 common shares of the Company. Oaktree has also nominated two members of the Board and is entitled to designate two nominees for election to the Board so long as it beneficially owns or controls at least 11.1% of SunOpta Inc.'s common stock on an as-exchanged basis. If Oaktree beneficially owns or controls less than 11.1% but more than 5% of SunOpta Inc.'s common stock on an as-exchanged basis, it will be entitled to designate one nominee. In addition, Engaged Capital has nominated one member of our Board.

Oaktree is assisting us with our efforts to improve our operations, management and governance. Oaktree's objectives and perspectives as an equity investor in SunOpta may not always be aligned with those of other stakeholders, including our debtholders and smaller shareholders.

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

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

***Our business could be negatively impacted as a result of shareholder activism or an unsolicited takeover proposal or a proxy contest***

In recent years, proxy contests and other forms of shareholder activism have been directed against numerous public companies. If a proxy contest or an unsolicited takeover proposal was made with respect to us, we could incur significant costs in defending the Company, which would have an adverse effect on our financial results. Shareholder activists may also seek to involve themselves in the governance, strategic direction and operations of the Company. Such proposals may disrupt our business and divert the attention of our management and employees, and any perceived uncertainties as to our future direction resulting from such a situation could result in the loss of potential business opportunities, be exploited by our competitors, cause concern to our current or potential customers, and make it more difficult to attract and retain qualified personnel and business partners, all of which could adversely affect our business. In addition, actions of activist shareholders may cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

## Risks Related to Our Business

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

Many of our products are susceptible to harmful bacteria, and the sale of food products for human consumption involves the risk of injury or illness to consumers. Such injuries may result from inadvertent mislabeling, tampering by unauthorized third parties, faulty packaging materials, product contamination, or spoilage. Under certain circumstances, we or our customers may be required to recall or withdraw products, which may lead to a material and adverse effect on our business, financial condition or result of operations. Our customers may also voluntarily recall or withdraw a product we manufactured or packaged, even without consulting us, which could increase our potential liability and costs and result in lost sales. A product recall or withdrawal could result in significant losses due to the costs of the recall, the destruction of product inventory, and lost sales due to the unavailability of product for a period of time. In addition, a recall or withdrawal may cause us to lose future revenues from, or relationships with, one or more material customers, and the impact of the recall or withdrawal could affect our customers' willingness to continue to purchase related or unrelated products from us, or could otherwise hinder our ability to grow our business with those customers. We could also be forced to temporarily close one or more production facilities.

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For example, on May 3, 2016, we announced a voluntary recall of certain sunflower kernel products that have the potential to be contaminated with *Listeria monocytogenes* bacteria, and a number of our customers initiated recalls of their products that contain the affected sunflower kernels as an ingredient or component. Additionally, we ceased production at our roasting facilities for the period from April 21, 2016 until on or about May 15, 2016, while we put in place corrective and preventive actions. While we have recognized estimated losses of \$47.5 million related to this recall, we may need to revise our estimates to be materially larger as we continue to work with our customers to substantiate the claims received to date and any additional claims that may be received. Consequently, we may not be able to determine the full extent of the losses related to the recall for some time and certain factors impacting these losses, such as our customers' processes for developing their claims, the timing of submission of any such claims, and the terms of our customers' insurance policies and related coverage, which are beyond our control. Revisions of our estimated losses and costs may occur at any time as we continue this process.

We have general liability and product recall insurance policies with aggregate limits of \$47.0 million under which we expect to recover the sunflower kernel recall-related costs, less applicable deductibles. As at December 30, 2017, we had recognized recoveries up to the limit of the coverage available under our insurance policies. Consequently, to the extent any losses are excluded under the insurance policies or additional losses are recognized related to existing or new claims, these excluded or excess losses will be recognized as a charge to future earnings.

Even if a situation does not necessitate a recall or market withdrawal, product liability claims might be asserted against us. If a product recall or withdrawal were to lead to a decline in sales of a similar or related product sold by a customer or other third party, that party could also initiate litigation against us. While we are subject to governmental inspection and regulations and believe our facilities and those of our co-packers comply in all material respects with all applicable laws and regulations, if the consumption of any of our products causes, or is alleged to have caused, a health-related illness in the future, we may become subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or physical harm could adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image.

Moreover, future claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. Further, we may incur claims or liabilities for which we are not insured or that exceed the amount of our insurance coverage. A product liability judgment against us or a further product recall could have a material and adverse effect on our business, financial condition and results of operations.

***Food safety concerns and instances of food-borne illnesses caused by third parties could harm our business***

Our internal processes and training may not be fully effective in preventing contamination of food products that could lead to food-borne illnesses. We rely on third-party suppliers and distributors, which increases the risk that food-borne illness incidents (such as *e. coli*, *salmonella* or *listeria*) could occur outside of our control and at multiple locations. If consumers lose confidence in the safety and quality of our products or organic products generally, even in the absence of a recall or a product liability case, our business, financial condition and results of operations could be materially and adversely affected. Instances of food-borne illnesses, whether real or perceived, and whether or not traceable to our operations or a result of our actions or omissions, could cause negative publicity about us or the products we serve, which could adversely affect sales. Food safety concerns and instances of food-borne illnesses and injuries caused by contaminated products sold by third parties could cause customers to shift their preferences, even if no food-borne illnesses or injuries are traced to our products. As a result, our sales may decline. Loss of customers as a result of these health concerns or negative publicity could harm our business.

***Litigation and regulatory enforcement concerning marketing and labeling of food products could adversely affect our business and reputation***

The marketing and labeling of any food product in recent years has brought increased risk that consumers will bring class action lawsuits and that the FTC and/or state attorneys general will bring legal action concerning the truth and accuracy of the marketing and labeling of the product. Examples of causes of action that may be asserted in a consumer class action lawsuit include fraud, unfair trade practices, and breach of state consumer protection statutes (such as Proposition 65 in California). The FTC and/or state attorneys general may bring legal action that seeks removal of a product from the marketplace, and impose fines and penalties. Even when not merited, class claims, action by the FTC or state attorneys general enforcement actions can be expensive to defend and adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image, which could have a material and adverse effect on our business, financial condition and results of operations.

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***We are subject to significant food and health regulations***

We are affected by a wide range of governmental regulations in Canada, the U.S., Mexico and several countries in Europe, among others. These laws and regulations are implemented at the national level (including, among others, federal laws and regulation in Canada and the U.S.) and by local subdivisions (including, among others, state laws in the U.S. and provincial laws in Canada). We are also subject to regulations of the EU and the regulatory authority of regulatory agencies in several different countries. Examples of regulatory agencies influencing our operations include: the USDA, the FDA, the DHS, the EPA, the CFIA, and Skal, among others.

Examples of laws and regulations that affect us include laws and regulations applicable to:

the use of seed, fertilizer and pesticides;

the purchasing, harvesting, transportation and warehousing of seeds, grain and other products;

the processing and sale of food, including wholesale operations; and

the product labeling and marketing of food and food products, food safety and food defense.

These laws and regulations affect various aspects of our business. For example, certain food ingredient products manufactured by SunOpta may require pre-market approval by the FDA that the ingredient is generally recognized as safe, or GRAS. We believe that most food ingredients for which we have commercial rights are GRAS. However, this status cannot be determined until actual formulations and uses are finalized. As a result, we may be adversely impacted if the FDA determines that our food ingredient products do not meet the criteria for GRAS.

In addition, certain USDA regulations set forth the minimum standards producers must meet in order to have their products labeled as certified organic, and we currently manufacture a number of organic products that are covered by these regulations. While we believe our products and our supply chain are in compliance with these regulations, changes to food regulations may increase our costs to remain in compliance. We could lose our organic certification if a facility becomes contaminated with non-organic materials or if we do not use raw materials that are certified organic. The loss of our organic certifications could materially and adversely affect our business, financial condition and results of operations.

Our business is subject to the Perishable Agricultural Commodities Act (PACA). PACA regulates fair trade standards in the fresh produce industry and governs our purchases of fresh produce and sales of frozen produce. We source fresh produce under licenses issued by the USDA, as required by PACA. Our failure to comply with the PACA requirements could, among other things, result in civil penalties, suspension or revocation of our licenses to sell produce and in certain cases, criminal prosecution, which could have a material and adverse effect on our business, financial condition and results of operations.

Changes in any government laws and regulations applicable to our operations could increase our compliance costs, negatively affect our ability to sell certain products or otherwise adversely affect our results of operations. In addition, while we believe we are in material compliance with all laws and regulations applicable to our operations, we cannot assure you that we have been, or will at all times be, in compliance with all food production and health requirements, or that we will not incur material costs or liabilities in connection with these requirements. Our failure to comply with any laws, regulations or policies applicable to our business could result in fines, lawsuits, enforcement actions, penalties or loss in the ability to sell certain products, any of which could materially and adversely affect our business, financial condition and results of operations.



***We may require additional capital, which may not be available on favorable terms or at all***

We have grown via a combination of internal growth and acquisitions requiring available financial resources. Our ability to raise capital, through equity or debt financing, is directly related to our ability to both continue to grow and improve returns from our operations. Debt or equity financing may not be available to us on favorable terms or at all. In addition, any future equity financing would dilute our current shareholders and may result in a decrease in our share price if we are unable to realize adequate returns. We will not be able to continue to fund internal growth and/or acquire complementary businesses within the natural and organic food industries without continued access to capital resources.

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***Impairment charges in goodwill or other intangible assets could adversely impact our financial condition and results of operations***

As a result of business acquisitions, a significant portion of our total assets is comprised of intangible assets and goodwill. We are required to perform impairment tests of our goodwill and other intangible assets annually, or at any time when events occur that could affect the value of these assets. We may engage in additional acquisitions, which could result in our recognition of additional intangible assets and goodwill. If the financial performance of the acquired businesses is not as strong as we anticipate, we could be required to record significant impairments to intangible assets and/or goodwill, which could materially and adversely impact our business, financial condition and results of operations.

For example, in 2017, we recognized a goodwill impairment charge of \$115.0 million related to the Healthy Fruit reporting unit of the Consumer Products operating segment, and, in 2016, we recognized a goodwill impairment charge of \$17.5 million related to the Sunflower reporting unit of the Raw Material Sourcing and Supply operating segment.

***We operate in a highly competitive industry***

We operate businesses in highly competitive product and geographic markets in the U.S., Canada, Europe and various other international markets. We compete with various U.S. and international commercial grain procurement marketers, major companies with food ingredient divisions, other food ingredient companies, trading companies, and consumer-packaged food companies that also engage in the development and sale of food ingredients and other food companies involved in natural and organic foods. These competitors may have financial resources and staff larger than ours and may be able to benefit from economies of scale, pricing advantages and greater resources to launch new products that compete with our offerings. We have little control over and cannot otherwise affect these competitive factors. If we are unable to effectively respond to these competitive factors or if the competition in any of our product markets results in price reductions or decreased demand for our products, our business, financial condition and results of operations may be materially and adversely affected.

***Our customers generally are not obligated to continue purchasing products from us***

Many of our customers buy from us under purchase orders, and we generally do not have long-term agreements with or commitments from these customers for the purchase of products. We cannot provide assurance that our customers will maintain or increase their sales volumes or orders for the products supplied by us or that we will be able to maintain or add to our existing customer base. Decreases in our customers' sales volumes or orders for products supplied by us may have a material adverse effect on our business, financial condition and results of operations.

***Loss of a key customer could materially reduce revenues and earnings***

Our relationships with our key customers are critical to the success of our business and our results of operations. Our three largest customers accounted for approximately 24% of revenues for the year ended December 30, 2017. The loss, decrease or cancellation of business with any of our large customers could materially and adversely affect our business, financial condition and results of operations.

***Consumer preferences for natural and organic food products are difficult to predict and may change***

Our success depends, in part, on our ability and our customers' ability to offer products that anticipate the tastes and dietary habits of consumers and appeal to their preferences on a timely and affordable basis. A significant shift in consumer demand away from our products or products that utilize our integrated foods platform, or a failure to maintain our current market position, could reduce our sales and harm our business. Consumer trends change based on a number of factors, including nutritional values, a change in consumer preferences or general economic conditions.

Additionally, there is a growing focus among some consumers to buy local food products in an attempt to reduce the carbon footprint associated with transporting food products from longer distances, which could result in a decrease in the demand for food products and ingredients that we import from other countries or transport from remote processing locations or growing regions. Further, failures by us or our competitors to deliver quality products could erode consumer trust in the organic certification of foods. These changes could lead to, among other things, reduced demand and price decreases, which could have a material and adverse effect on our business, financial condition and results of operations.

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***If we do not manage our supply chain effectively, our operating results may be adversely affected***

Our supply chain is complex. We rely on suppliers for our raw materials and for the manufacturing, processing, packaging and distribution of many of our products. The inability of any of these suppliers to deliver or perform for us in a timely or cost-effective manner could cause our operating costs to rise and our margins to fall. Many of our products are perishable and require timely processing and transportation to our customers. Additionally, many of our products can only be stored for a limited amount of time before they spoil and cannot be sold. We must continuously monitor our inventory and product mix against forecasted demand or risk having inadequate supplies to meet consumer demand as well as having too much inventory that may reach its expiration date. If we are unable to manage our supply chain efficiently and ensure that our products are available to meet consumer demand, our operating costs could increase and our margins could fall, which could have a material and adverse effect on our business, financial condition and results of operations.

Some of our operations are subject to seasonal supply fluctuations. For example, we purchase strawberries and other fruit from farmers during the peak California growing season, which occurs during the first two quarters of the year. As a result, our costs may be higher during these periods. We may not be successful in counteracting or smoothing out the effects of seasonality, and we expect that certain parts of our operations will continue to remain subject to significant seasonality.

Part of our supply source also depends in part on a seasonal temporary workforce comprised primarily of migrant workers. Changes in immigration laws or policies that discourage migration to the U.S. and political or other events (such as war, terrorism or health emergencies) that make it more difficult for individuals to immigrate to or migrate throughout the U.S. could adversely affect the migrant worker population and reduce the workforce available for farms and production facilities in the U.S. Additionally, increased competition from other industries for migrant workers could increase our costs and adversely affect our business, financial condition and results of operations.

***Volatility in the prices of raw materials and energy could increase our cost of sales and reduce our gross margins***

Raw materials represent a significant portion of our cost of sales. Our cost to purchase services and materials, such as grains, fruits and other commodities, processing aids, and natural gas, can fluctuate depending on many factors, including weather patterns, economic and political conditions and pricing volatility. In addition, we must compete for limited supplies of these raw materials and services with competitors having greater resources than us. If our cost of materials and services increases due to any of the above factors, we may not be able to pass along the increased costs to our customers.

We enter into a number of exchange-traded commodity futures and options contracts to partially hedge our exposure to price fluctuations on transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Our inventories, however, may not be completely hedged, due in part to our assessment of exposure from expected price fluctuations and an inability to hedge a number of raw materials.

Exchange purchase and sales contracts may expose us to risks that a counterparty to a transaction is unable to fulfill its contractual obligation. We may be unable to hedge 100% of the price risk of each transaction due to timing and availability of hedge contracts and third-party credit risk. In addition, we have a risk of loss from hedge activity if a grower does not deliver the commodity as scheduled. We also monitor the prices of natural gas and from time to time lock in a percentage of our natural gas needs based on current prices and expected trends.

An increase in our cost of sales resulting from an increase in the price of raw materials and energy could have a material and adverse effect on our business, financial condition and results of operations.

***Our future results of operations may be adversely affected by the availability of organic and non-GMO ingredients***

Our ability to ensure a continuing supply of organic and non-GMO ingredients at competitive prices depends on many factors beyond our control, such as the number and size of farms that grow organic and non-GMO crops, climate conditions, changes in national and world economic conditions, currency fluctuations and forecasting adequate need of seasonal ingredients.

The organic and non-GMO ingredients that we use in the production of our products (including, among others, fruits, vegetables, nuts and grains) are vulnerable to adverse weather conditions and natural disasters, such as floods, droughts, water scarcity, temperature extremes, frosts, earthquakes and pestilences. Natural disasters and adverse weather conditions (including the potential effects of climate change) can lower crop yields and reduce crop size and crop quality, which in turn could reduce our supplies of organic or non-GMO ingredients or increase the prices of organic or non-GMO ingredients. If our supplies of organic or non-GMO ingredients are reduced, we may not be able to find enough supplemental supply sources on favorable terms, if at all, which could impact our ability to supply product to our customers and adversely affect our business, financial condition and results of operations.

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***Adverse weather conditions and natural disasters could impose costs on our business***

Our various food products, from seeds and grains to ingredients, fruits, vegetables and other inputs, are vulnerable to adverse weather conditions and natural disasters, including windstorms, hurricanes, floods, droughts, fires, temperature extremes and earthquakes, some of which are common but difficult to predict, as well as crop disease and infestation. Severe weather conditions may occur with higher frequency or may be less predictable in the future due to the effects of climate change. Unfavorable growing conditions could reduce both crop size and crop quality. In extreme cases, entire harvests may be lost in some geographic areas. Adverse weather conditions or natural disasters may adversely affect our supply of one or more food products or prevent or impair our ability to ship products as planned. These factors can increase costs, decrease our sales volumes and revenues and lead to additional charges to earnings, which may have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our fruit supply is sourced from California, which experienced severe drought conditions between fall 2011 and fall 2015 due to extremely low levels of rainfall. Such conditions resulted in lost crops as well as increased water costs for growers in California. In particular, we depend on growers in California for strawberries. In January 2014, a drought state of emergency was declared in California and, among other actions, legislation was passed requiring monitoring of groundwater pumping, which limits the amount of groundwater for which farmers can drill. Strawberry growers are largely dependent on well water, and diminishing groundwater resources could lead to a reduced strawberry supply. In April 2015, statewide mandatory water conservation measures were imposed in California, including increased water use reporting by agricultural water users, enhancing the state's ability to enforce against diversions and unreasonable use of water in an effort to curtail wasteful water practices in agricultural fields. Precipitation returned to more normal levels in 2016 and early 2017, and the drought emergency was lifted in April 2017. However, drought conditions are a recurring feature of California's climate, and existing and future water conservation laws could negatively impact the agricultural industry in California and have a material adverse effect on our business, financial condition and results of operations.

***An interruption at one or more of our manufacturing facilities could negatively affect our business, and our business continuity plan may prove inadequate***

We own or lease, manage and operate a number of manufacturing, processing, packaging, storage and office facilities. We may be unable to accept and fulfill customer orders as a result of disasters, epidemics, business interruptions or other similar events. Some of our inventory and manufacturing facilities are located in areas that are susceptible to harsh weather, and the production of certain of our products is concentrated in a few geographic areas. In addition, we store chemicals used in the equipment for quick freezing of fruit or used for cooling processes during ingredient processing, and our storage of these chemicals could lead to risk of leaks, explosions or other events. Although we have a business continuity plan, we cannot provide assurance that our business continuity plan will address all of the issues we may encounter in the event of a disaster or other unanticipated issue. Our business interruption insurance may not adequately compensate us for losses that may occur from any of the foregoing. In the event that a natural disaster, or other catastrophic event were to destroy any part of any of our facilities or interrupt our operations for any extended period of time, or if harsh weather or epidemics prevent us from delivering products in a timely manner, our business, financial condition and results of operations could be materially and adversely affected. In addition, if we fail to maintain our labor force at one or more of our facilities, we could experience delays in production or delivery of our products, which could also have a material adverse effect on our business, financial condition and results of operations.

***Technology failures could disrupt our operations and negatively impact our business***

In the normal course of business, we rely on information technology systems to process, transmit, and store electronic information. For example, our production and distribution facilities and inventory management utilize information technology to increase efficiencies and limit costs. Information technology systems are also integral to the reporting of our results of operations. Furthermore, a significant portion of the communications between, and storage of personal

data of, our personnel, customers, consumers and suppliers depends on information technology. Our information technology systems may be vulnerable to a variety of interruptions, as a result of updating our enterprise platform or due to events beyond our control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers, and other security issues. These events could compromise our confidential information, impede or interrupt our business operations, and may result in other negative consequences, including remediation costs, loss of revenue, litigation and reputational damage.

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***Our reputation and our relationships with customers, consumers and suppliers would be harmed if our systems are accessed by unauthorized persons***

We maintain certain personal data, including personal data regarding our personnel, customers, consumers and suppliers. This data is maintained on our own systems as well as that of third parties we use in our operations. If a breach or other breakdown results in disclosure of confidential or personal information, we may suffer reputational, competitive and/or business harm. While we have implemented administrative and technical controls and taken other preventive actions to reduce the risk of cyber incidents and protect our information technology, they may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems. The costs relating to any data breach could be material, and we currently do not carry insurance against the risk of a data breach. Any data breach or other access of our systems by unauthorized persons could have a material adverse effect on our business, financial condition and results of operations.

***Changes in laws and regulations of privacy and protection of user data could adversely affect our business***

We are subject to data privacy and protection laws and regulations that apply to the collection, transmission, storage and use of proprietary information and personally-identifying information. The regulatory environment surrounding information security and data privacy varies from jurisdiction to jurisdiction and is constantly evolving and increasingly demanding. The restrictions imposed by such laws continue to develop and may require us to incur substantial costs, adopt additional compliance measures, such as notification requirements and corrective actions in the event of a security breach, and/or change our current or planned business models. We are already subject to strict data privacy laws in the European Union and other jurisdictions governing the collection, transmission, storage and use of employee data and personally-identifying information. The General Data Protection Regulation ( GDPR ), coming into effect in Europe in May 2018, creates a range of new compliance obligations and increases financial penalties for non-compliance and extends the scope of the European Union data protection law to all companies processing data of European Union residents, regardless of the company's location. The GDPR and other privacy and data protection laws may be interpreted and applied differently from country to country and may create inconsistent or conflicting requirements. Such regulations increase our compliance and administrative burden significantly. While we have developed and are executing comprehensive plans to meet these requirements and do not currently foresee significant obstacles that would prevent timely compliance, these plans are subject to many variables that could delay or otherwise affect implementation.

If our current security measures and data protection policies and controls are found to be non-compliant with relevant laws or regulations in any jurisdiction where we conduct business, we may be subject to penalties and fines, and may need to expend significant resources to implement additional data protection measures. In addition, we may be required to modify the features and functionality of our system offerings in a way that is less attractive to customers.

***If we lose the services of our key management, our business could suffer***

Our prospects depend to a significant extent on the continued service of our key executives, and our continued growth depends on our ability to identify, recruit and retain key management personnel. We are also dependent on our ability to continue to attract, retain and motivate our personnel. We do not typically carry key person life insurance on our executive officers. If we lose the services of our key management or fail to identify, recruit and retain key personnel, our business, financial condition and results of operations may be materially and adversely impacted.

***If we face labor shortages or increased labor costs, our results of operations and our growth could be adversely affected***

Labor is a significant component of the cost of operating our business. Our ability to meet our labor needs while controlling labor costs is subject to external factors, such as employment levels, prevailing wage rates, minimum wage legislation, changing demographics, health and other insurance costs and governmental labor and employment

requirements. In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, while increasing our wages could cause our earnings to decrease. If we face labor shortages or increased labor costs because of increased competition for employees from our competitors and other industries, higher employee-turnover rates, unionization of farm workers or increases in the federal- or state-mandated minimum wage, change in exempt and non-exempt status, or other employee benefits costs (including costs associated with health insurance coverage or workers' compensation insurance), our operating expenses could increase and our business, financial condition and results of operations could be materially and adversely affected.

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***Technological innovation by our competitors could make our food products less competitive***

Our competitors include major food ingredient and consumer-packaged food companies that also engage in the development and sale of food and food ingredients. Many of these companies are engaged in the development of food ingredients and other packaged food products and frequently introduce new products into the market. Existing products or products under development by our competitors could prove to be more effective or less costly than our products, which could have a material adverse effect on the competitiveness of our products and our business.

***We rely on protection of our intellectual property and proprietary rights***

Our success depends in part on our ability to protect our intellectual property rights. We rely primarily on patent, copyright, trademark and trade secret laws to protect our proprietary technologies. Our policy is to protect our technology by, among other things, filing patent applications for technology relating to the development of our business in the U.S. and in selected foreign jurisdictions.

Our trademarks and brand names are registered in the U.S., Canada and other jurisdictions. We intend to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. We also rely on trade secrets and proprietary know-how and confidentiality agreements to protect certain of the technologies and processes that we use.

The failure of any patents, trademarks, trade secrets or other intellectual property rights to provide protection to our technologies would make it easier for our competitors to offer similar products, which could result in lower sales or gross margins.

***Changes in laws or regulations governing foreign trade or taxation could adversely affect our business***

Changes in governmental laws or regulations affecting foreign trade or taxation, or the introduction of new laws or regulations, may have a direct or indirect effect on our business or those of our customers or suppliers. Such changes could increase the costs of doing business for the Company, our customers, or suppliers, or restrict our actions, causing our results of operations to be adversely affected.

The current President of the United States has expressed an intention to change existing trade agreements, such as the North American Free Trade Agreement ( NAFTA ). Any changes to NAFTA could impact our Mexican and Canadian operations. Changes in U.S. political, regulatory and economic conditions or laws and policies governing foreign trade with countries where we or our customers operate, in particular Canada, Mexico and Europe, could adversely affect our operating results and our business.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. The U.S. recently enacted significant tax reform, and certain provisions of the new law may adversely affect us. In addition, governmental tax authorities are increasingly scrutinizing the tax positions of companies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in countries where we do business. If U.S. or other foreign tax authorities change applicable tax laws, our overall taxes could increase, and our business, financial condition and results of operations may be adversely impacted.

***Our operations are influenced by agricultural policies***

We are affected by governmental agricultural policies such as price supports and acreage set aside programs and these types of policies may affect our business. The production levels, markets and prices of the grains and other raw products that we use in our business are materially affected by government programs, which include acreage control

and price support programs of the USDA. Revisions in these and other comparable programs, in the U.S. and elsewhere, could have a material and adverse effect on our business, financial condition and results of our operations.

***We are subject to substantial environmental regulation and policies***

We are, and expect to continue to be, subject to substantial federal, state, provincial and local environmental regulation. Some of the key environmental regulations to which we are subject include air quality regulations of the EPA and certain city, state and provincial air pollution control groups, waste treatment/disposal regulations, sewer regulations under agreements with local city sewer districts, regulations governing hazardous substances, storm water regulations and bioterrorism regulations. For a more detailed summary of the environmental regulations and policies to which we are subject, see Item 1. Business Regulation of this report. Our business also requires that we have certain permits from various state, provincial and local authorities related to air quality, storm water discharge, solid waste, land spreading and hazardous waste.

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In the event that our safety procedures for handling and disposing of potentially hazardous materials in certain of our businesses were to fail, we could be held liable for any damages that result, and any such liability could exceed our resources. We may be required to incur significant costs to comply with environmental laws and regulations in the future. In addition, changes to environmental regulations may require us to modify our existing plant and processing facilities and could significantly increase the cost of those operations.

The foregoing environmental regulations, as well as others common to the industries in which we participate, can present delays and costs that can adversely affect business development and growth. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, financial condition and results of operations. In addition, any changes to current regulations may impact the development, manufacturing and marketing of our products, and may have a negative impact on our future results.

***Climate change laws could have an impact on our financial condition and results of operations***

Legislative and regulatory authorities in the U.S., Canada and internationally will likely continue to consider numerous measures related to climate change and greenhouse gas emissions. In order to produce, manufacture and distribute our products, we and our suppliers use fuels, electricity and various other inputs that result in the release of greenhouse gas emissions. Concerns about the environmental impacts of greenhouse gas emissions and global climate change may result in environmental taxes, charges, regulatory schemes, assessments or penalties, which could restrict or negatively impact our operations, as well as those of our suppliers, who would likely pass all or a portion of their costs along to us. We may not be able to pass any resulting cost increases along to our customers. Any laws or regulations regarding greenhouse gas emissions or other climate change laws enacted by the U.S., Canada or any other international jurisdiction where we conduct business could materially and adversely affect our business, financial condition and results of operations.

***Fluctuations in exchange rates, interest rates and commodity prices could adversely affect our business, financial condition, results of operations or liquidity***

We are exposed to foreign exchange rate fluctuations as our non-U.S.-based operations are translated into U.S. dollars for financial reporting purposes and we also sell product in currencies that are different from the currency used to purchase materials, or process finished goods. We are exposed to changes in interest rates as a significant portion of our debt bears interest at variable rates. We are exposed to price fluctuations on a number of commodities as we hold inventory and enter into transactions to buy and sell products in a number of markets. Additional qualitative and quantitative disclosures about these risks can be found in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of this report. As a result of these exposures, fluctuations in exchange rates, interest rates and certain commodities could adversely affect our business, financial condition, results of operations or liquidity.

***Our international operations expose us to additional risks***

We source our products from numerous suppliers and growers from around the world. Outside of the U.S. and Canada, we have processing, packaging and warehousing facilities in Mexico, Europe, Africa and Asia. Our international operations and customers expose us to certain risks inherent in doing business abroad, including:

exposure to local economic conditions, expropriation and nationalization, foreign exchange rate fluctuations and currency controls;

withholding and other taxes on remittances and other payments by subsidiaries;

investment restrictions or requirements;

export and import restrictions;

compliance with anti-corruption and anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;

compliance with export controls and economic sanctions laws;

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increases in working capital requirements related to long supply chains; and

disruptions in our supply chain from unforeseen events, such as natural disasters, terrorism and political and civil unrest.

For example, we have significant operations in Mexico, including a facility in the State of Michoacán, near areas where there have been incidents of unrest, which may heighten the risks of our international operations described above.

As we continue to expand our business globally, we may have difficulty anticipating and effectively managing these and other risks that our international operations may face, which may adversely impact our business, financial condition and results of operations. In addition, any acquisition of businesses with operations outside of the U.S. and Canada may exacerbate this risk.

***A significant 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 significant 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 stakeholders 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., judgments 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.

#### **Risks Related to Our Indebtedness**

***Our level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt obligations***

Our level of indebtedness could adversely affect our business, financial condition and results of operations, including, without limitation, impairing our ability to obtain additional financing for working capital, capital expenditures, debt service requirements or other general corporate purposes. In addition, we will have to use a substantial portion of our cash flow to pay principal, premium (if any) and interest on our indebtedness, which will reduce the funds available to us for other purposes. If we do not generate sufficient cash flows to satisfy our debt service obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. Our level of indebtedness will also make us more vulnerable to economic downturns and adverse industry conditions, and may compromise our ability to capitalize on business opportunities and to react to competitive pressures as compared to our competitors.

***Our debt and equity agreements restrict how we may operate our business, and our business may be materially and adversely affected if these restrictions prevent us from implementing our business plan***

The agreements governing our debt and preferred equity instruments contain restrictive covenants that limit the discretion of our management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to obtain additional debt financing, to create other liens, to complete a merger, amalgamation or consolidation, to make certain distributions or make certain payments, investments and guarantees and to sell or otherwise dispose of certain assets. These restrictions may hinder our ability to execute on our growth strategy or prevent us from implementing parts of our business plan.

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***Our business may be materially and adversely affected if we are unable to renew the Global Credit Facility and/or refinance our senior secured second lien notes***

The Global Credit Facility matures on February 10, 2021. We may not be able to renew this facility to the same level or size, or on terms as favorable as at present. 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 senior secured second lien notes mature on October 9, 2022. Our ability to refinance these notes upon maturity will depend on the capital markets and our financial condition at such time. As a result, we may not be able to obtain refinancing at commercially reasonable terms, which could have a material and adverse impact on our business, financial condition and results of operations. Alternatively, we may have to undertake alternative financing plans, such as restructuring our debt, selling assets, reducing or delaying capital investments, or seeking to raise additional capital.

***Our business could be materially and adversely affected if we are unable to meet the financial covenants of the Global Credit Facility***

Our ability to comply with the financial covenants under the Global Credit Facility agreement will depend on the success of our businesses, 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 Global Credit Facility agreement. Failure to comply with our financial covenants and other terms could result in an event of default and the acceleration of amounts owing under this agreement, unless we are able to negotiate a waiver. The lenders could condition any such waiver on an amendment to the agreement on terms (including, but not limited to, the payment of consent fees) that may be unfavorable to us. If we are unable to negotiate a covenant waiver or replace or refinance the Global Credit Facility agreement on favorable terms, our business, financial condition and results of operations will be materially and adversely impacted.

**Risks Related to Business Acquisitions and Divestures**

***We may not be able to effectively manage our growth and integrate acquired companies***

From time to time we may pursue acquisition opportunities that are consistent with our overall growth strategy. In October 2015, for example, we completed the acquisition of Sunrise Holdings (Delaware), Inc., which was the largest acquisition in the history of our company. Our ability to effectively integrate past or future business acquisitions, including our ability to realize potentially available marketing opportunities and cost savings in a timely and efficient manner will have a direct impact on our future results. We may encounter problems in connection with the integration of any new businesses, such as challenges relating to the following:

integration of an acquired company's products into our product mix;

the amount of cost savings that may be realized as a result of integrating an acquired product or business;

unanticipated quality and production issues with acquired products;

adverse effects on business relationships with suppliers and customers;

diversion of management attention;

integrating acquired operations that have management teams and company cultures that differ from our own;

difficulty with personnel and loss of key employees;

implementation of an integrated enterprise-wide accounting and information system and consolidation of back office accounting;

compatibility of financial control and information systems;

exchange rate risk with respect to acquisitions outside the U.S.;

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potential for patent and trademark claims or other litigation against or involving the acquired company;

integration of businesses that operate in new geographic areas, including difficulties in identifying and gaining access to customers in new markets; and

in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences.

If we experience any of these problems in the integration of acquisitions, they could have a material and adverse effect on our business, financial condition and results of operations.

***We may not have accurately estimated the benefits or synergies to be realized from business acquisitions***

Our expected benefits and synergies from acquired businesses may not be realized if our cash flow estimates associated with the assets of those businesses are materially inaccurate or if we fail to identify operating problems or liabilities prior to acquisition. We perform inspections of the assets to be acquired, which we believe to be generally consistent with industry practices. However, the accuracy of our assessments of the assets and our estimates are inherently uncertain. There could also be environmental or other problems that were not discovered in the course of our due diligence and inspections. If problems or risks are identified after the closing of an acquisition, there may be limited recourse against the former owners.

***Business acquisitions may expose us to unknown liabilities***

When we acquire a business, we often assume or otherwise become subject to liabilities of acquired businesses, including contingent liabilities that may depend on the outcome of legal and administrative proceedings or other events. As a result, we may become subject to liabilities that are unknown to us or that cannot be quantified at the time of the acquisition. If we become subject to significant liabilities or other obligations as a result of an acquisition, our business could be materially affected. Moreover, to the extent we have contractual rights to indemnification against losses and liabilities of businesses we acquire, the amount of indemnification available could be limited and may not be sufficient to cover the actual losses we suffer.

***Business acquisitions could result in unexpected disruptions of our business***

In response to an acquisition, the customers may cease or reduce their business with the combined company, which could negatively affect our business. Similarly, current or prospective employees may experience uncertainty about their future roles with the combined company. This may adversely affect our ability to attract and retain key management, marketing and technical personnel. In addition, the diversion of the attention of our respective management teams away from day-to-day operations during the pendency of the business acquisition could have an adverse effect on our financial condition and operating results.

***The possible future divestiture of businesses could impact our profitability***

We may, from time to time, divest businesses that are no longer a strategic fit or no longer meet our growth or profitability targets. Our profitability may be impacted by gains or losses on the sales of such businesses, or lost operating income or cash flows from such businesses. Additionally, we may be required to record asset impairment or restructuring charges related to divested businesses, or indemnify buyers for liabilities, which may reduce our profitability and cash flows. For example, in 2017 and 2016, we recognized asset impairment and facility closure costs of \$33.3 million, as well as related employee termination costs of \$8.4 million, in connection with portfolio optimization measures taken under the Value Creation Plan, including the exits from flexible resealable pouch and nutrition bar product lines and operations. We may also not be able to negotiate such divestitures on terms acceptable to us. Such potential divestitures will require management resources and may divert management's attention from our

day-to-day operations. If we are not successful in divesting such businesses, our business could be harmed.

**Risks Related to Ownership of our Common Shares**

***Our operating results and share price are subject to significant volatility***

Our net sales and operating results may vary significantly from period to period due to:

changes in our customers and/or their demand;

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changes in our operating expenses;

management's ability to execute our business strategies focused on improved operating earnings;

organizational and personnel changes;

interruption in operations at our facilities;

product recalls or market withdrawals;

legal and administrative cases (whether civil, such as environmental or product related, or criminal), settlements, judgments and investigations;

foreign currency fluctuations;

supply shortages or commodity price fluctuations; and

general economic conditions.

In addition, our share price may be highly volatile compared to larger public companies. Certain announcements could have a significant effect on our share price, including announcements regarding:

fluctuations in financial performance from period to period;

mergers, acquisitions and/or divestitures, either by us or key competitors;

changes in key personnel;

strategic partnerships or arrangements;

litigation and governmental inquiries;

changes in governmental regulation and policy;

patents or proprietary rights;

changes in consumer preferences and demand;

new financings; and

general market conditions.

Higher volatility increases the chance of larger than normal price swings which reduces predictability in the price of our common shares and could impair investment decisions. In addition, price and volume trading volatility in the stock markets can have a substantial effect on our share price, frequently for reasons other than our operating performance. These broad market fluctuations could adversely affect the market price of our common shares.

Periods of volatility in the overall market and the market price of a company's securities, is often followed by securities class action litigation alleging material misstatements or omissions in disclosures provided to shareholders. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

***Our debt instruments restrict, and our future debt instruments may restrict, our ability to pay dividends to our shareholders, and we do not currently intend to pay any cash dividends on our common shares in the foreseeable future; therefore, our shareholders may not be able to receive a return on their common shares until their shares are sold***

We have never paid or declared any cash dividends on our common shares. We do not anticipate paying any cash dividends on our common shares in the foreseeable future because, among other reasons, we currently intend to retain any future earnings to finance the growth of our business. In addition, the covenants included in our debt instruments, and the covenants to be included in our future debt instruments may restrict our ability to receive cash from our subsidiaries and pay dividends on our common shares. The future payment of dividends will be dependent on factors such as these covenant restrictions, cash on hand, or achieving and maintaining profitability, the financial requirements to fund growth, our general financial condition and other factors the Board may consider appropriate in the circumstances. Until we pay dividends, which we may never do, our shareholders will not receive a return on their common shares until their shares are sold.

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***The future issuance of additional common shares in connection with the exchange of convertible preferred stock, exercise of stock options, participation in our employee stock purchase plan and issuance of additional securities could dilute the value of our common shares***

We have unlimited common shares authorized but unissued. Our articles of amalgamation authorize us to issue these common shares, and we may also issue options, rights, warrants and appreciation rights relating to common shares for consideration and on terms and conditions established by the Board in its sole discretion.

The exchange of outstanding convertible preferred stock, exercise of stock-based awards, participation in our employee stock purchase plan, and issuance of additional securities in connection with acquisitions or otherwise could result in dilution in the value of our common shares and the voting power represented thereby. Furthermore, to the extent common shares are issued pursuant to the exchange of outstanding convertible preferred stock, exercise of stock-based awards, participation in our employee stock purchase plan and issuance of additional securities, our share price may decrease due to the additional amount of common shares available in the market. The subsequent sales of these shares could encourage short sales by our shareholders and others, which could place further downward pressure on our share price. Moreover, the holders of our stock options may hedge their positions in our common shares by short selling our common shares, which could further adversely affect our stock price.

***If securities or industry research analysts do not publish or cease publishing research or reports about our business or if they issue unfavorable commentary or downgrade our common shares, our share price and trading volume could decline***

The trading market for our common shares relies in part on the research and reports that securities and industry research analysts publish about us, our industry, our competitors and our business. We do not have any control over these analysts. Our share price and trading volumes could decline if one or more securities or industry analysts downgrade our common shares, issue unfavorable commentary about us, our industry or our business, cease to cover our Company or fail to regularly publish reports about us, our industry or our business.

**Item 1B. Unresolved Staff Comments**

None.

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**Item 2. Properties**

The following table lists the location, description, ownership and segment of our principal properties:

| <b>Location</b>                 | <b>Facility Description</b>                                       | <b>Owned/<br/>Leased</b> | <b>Lease Expiry<br/>Date</b> |
|---------------------------------|-------------------------------------------------------------------|--------------------------|------------------------------|
| Mississauga, Ontario(1)         | Corporate head office                                             | Leased                   | June 2021                    |
| Edina, Minnesota(1)             | Corporate administrative office and Consumer Products head office | Leased                   | November 2022                |
| Hope, Minnesota(2)              | Grain processing and Raw Material Sourcing and Supply head office | Owned                    |                              |
| Breckenridge, Minnesota(2)      | Grain processing and distribution                                 | Owned                    |                              |
| Moorhead, Minnesota(2)(4)       | Vacant                                                            | Owned                    |                              |
| Moorhead, Minnesota(2)          | Sales office                                                      | Leased                   | August 2020                  |
| Crookston, Minnesota(2)         | Grain processing, warehouse and distribution                      | Owned                    |                              |
| Crookston, Minnesota(2)         | Warehouse                                                         | Leased                   | November 2019                |
| Grace City, North Dakota(2)     | Grain processing, warehouse and distribution                      | Owned                    |                              |
| Wahpeton, North Dakota(2)       | Roasted snack processing, warehouse and distribution              | Owned                    |                              |
| Blooming Prairie, Minnesota(2)  | Grain storage                                                     | Owned                    |                              |
| Ellendale, Minnesota(2)         | Grain storage                                                     | Owned                    |                              |
| Scotts Valley, California(2)(3) | Sales and administrative office                                   | Leased                   | February 2021                |
| Amsterdam, The Netherlands(2)   | Sales and International Sourcing and Supply head office           | Leased                   | October 2022                 |
| Middenmeer, The Netherlands(2)  | Cocoa processing                                                  | Leased                   | December 2022                |
| Cavaillon, France(2)            | Sales office                                                      | Leased                   | July 2022                    |
| Skye, Germany(2)                | Sales office                                                      | Leased                   | November 2020                |
| Dalian, China(2)                | Storage                                                           | Leased                   | November 2024                |
| Dalian, China(2)                | Sales office                                                      | Leased                   | December 2024                |
| Addis Ababa, Ethiopia(2)        | Coffee processing, warehouse and staff housing                    | Leased                   | March 2018                   |
| Humera, Ethiopia(2)             | Grain processing, warehouse, storage and office                   | Leased                   | May 2018                     |
| Silistra, Bulgaria(2)           | Grain processing                                                  | Owned                    |                              |
| Varna, Bulgaria(2)              | Sales and administrative office                                   | Leased                   | July 2019                    |
| Kenema, Sierra Leone(2)         | Cocoa storage                                                     | Leased                   | August 2019                  |
| Heuvelton, New York(2)(5)       | Vacant                                                            | Owned                    |                              |
| Cresco, Iowa(2)                 | Grain milling                                                     | Owned                    |                              |

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|                            |                                                         |        |               |
|----------------------------|---------------------------------------------------------|--------|---------------|
| South Gate, California(3)  | Fruit ingredient processing, warehouse and distribution | Leased | June 2020     |
| Alexandria, Minnesota(3)   | Aseptic beverage processing and packaging               | Owned  |               |
| Alexandria, Minnesota(3)   | Ingredient processing                                   | Owned  |               |
| Alexandria, Minnesota(3)   | Warehouse                                               | Owned  |               |
| Modesto, California(3)     | Aseptic beverage processing and packaging               | Leased | May 2019      |
| Modesto, California(3)     | Warehouse                                               | Leased | May 2024      |
| Allentown, Pennsylvania(3) | Aseptic beverage processing and packaging               | Leased | April 2027    |
| Allentown, Pennsylvania(3) | Warehouse                                               | Leased | November 2025 |
| Omak, Washington(3)        | Fruit snack processing, warehouse and distribution      | Leased | May 2027      |
| Carson City, Nevada(3)(6)  | Vacant                                                  | Leased | December 2020 |
| Rogers, Arkansas(3)        | Sales office                                            | Leased | July 2019     |
| St. David s, Ontario(3)    | Fruit snack processing, warehouse and distribution      | Leased | December 2020 |
| Edwardsville, Kansas(3)    | Frozen fruit processing, warehouse and distribution     | Owned  |               |
| Oxnard, California(3)      | Frozen fruit processing, warehouse and distribution     | Owned  |               |
| Oxnard, California(3)      | Frozen fruit processing, warehouse and distribution     | Leased | December 2018 |
| Santa Maria, California(3) | Frozen fruit processing, warehouse and distribution     | Leased | December 2018 |
| Placentia, California(3)   | Sales and administration office                         | Leased | January 2019  |
| Jacona, Mexico(3)          | Frozen fruit processing, warehouse and distribution     | Owned  |               |

- (1) Included in Corporate Services.
- (2) Included in Global Ingredients.
- (3) Included in Consumer Products.
- (4) Moorhead, Minnesota, grain handling facility was closed on August 31, 2017.

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- (5) Heuvelton, New York, ingredient processing facility closed in January 2017.
- (6) Carson City, Nevada, nutritional bar processing facility ceased production in December 2017.

#### **Executive Offices**

Our executive head office is located at 2233 Argentia Drive, Suite 401, Mississauga, Ontario.

### **Item 3. Legal Proceedings**

#### **Employment Matter**

On April 19, 2013, a class-action complaint, in the case titled *De Jesus, et al. v. Frozsun, Inc. d/b/a Frozsun Foods*, was filed against Sunrise Growers, Inc. (then named Frozsun, Inc.) in California Superior Court, Santa Barbara County seeking damages, equitable relief and reasonable attorneys' fees for alleged wage and hour violations. This case includes claims for failure to pay all hours worked, failure to pay overtime wages, meal and rest period violations, waiting-time penalties, improper wage statements and unfair business practices. The putative class includes approximately 10,000 non-exempt hourly employees from Sunrise's production facilities in Santa Maria and Oxnard, California. The parties attended mediation on October 12, 2017 and reached a general agreement to resolve the matter on a class-wide basis. The parties are negotiating the remaining details of the settlement which is subject to court approval. It is anticipated that the parties will seek preliminary approval of the settlement from the court in March 2018. The Company expects to recover the full amount payable under the settlement through insurance coverage and an escrow account established in connection with the Company's acquisition of Sunrise Holdings (Delaware), Inc. in October 2015.

#### **Product Recall**

On November 20, 2017, Treehouse Foods, Inc., several of its related entities, and its insurer filed a lawsuit against the Company in the Circuit Court of Cook County, Illinois titled *Treehouse Foods, Inc. et al. v. SunOpta Grains and Food, Inc.* The Company was served with the Summons and Complaint on January 24, 2018. The plaintiffs allege economic damages resulting from the Company's 2016 voluntary recall of certain roasted sunflower kernel products due to the potential for *Listeria monocytogenes* contamination. The case includes claims for breach of express and implied warranty, negligence, strict liability, and indemnity seeking \$16.2 million in damages. There are no allegations of personal injury. The Company intends to vigorously defend itself against these claims. The Company cannot reasonably predict the outcome of this claim, nor can it estimate the amount of loss, or range of loss, if any, that may result from this claim.

In addition to the above mentioned matters, from time to time, we are involved in litigation incident to the ordinary conduct of our business. For a discussion of certain legal proceedings, see note 23 of the consolidated financial statements included at Item 15 of this Form 10-K.

### **Item 4. Mine Safety Disclosures**

Not Applicable.

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**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common shares trade in U.S. dollars on The NASDAQ Global Select Market under the symbol **STKL** , and in Canadian dollars on the TSX under the symbol **SOY** .

The following table indicates the high and low sales prices for our common shares for each quarterly period during the past two fiscal years on the NASDAQ and TSX. The prices shown are representative inter-dealer prices, do not include retail mark-ups, markdowns or commissions and do not necessarily reflect actual transactions.

|                    | <b>NASDAQ</b>      |                   | <b>TSX</b>          |                    |
|--------------------|--------------------|-------------------|---------------------|--------------------|
|                    | <b>High<br/>\$</b> | <b>Low<br/>\$</b> | <b>High<br/>C\$</b> | <b>Low<br/>C\$</b> |
| <b>Fiscal 2017</b> |                    |                   |                     |                    |
| First quarter      | 7.60               | 6.00              | 10.08               | 8.05               |
| Second quarter     | 10.20              | 6.30              | 13.53               | 8.53               |
| Third quarter      | 10.20              | 8.00              | 13.23               | 9.94               |
| Fourth quarter     | 9.65               | 6.95              | 12.37               | 8.88               |
| <b>Fiscal 2016</b> |                    |                   |                     |                    |
| First quarter      | 6.77               | 4.12              | 9.88                | 5.38               |
| Second quarter     | 5.69               | 3.16              | 7.18                | 4.14               |
| Third quarter      | 7.17               | 4.22              | 9.39                | 5.47               |
| Fourth quarter     | 7.70               | 5.73              | 10.09               | 7.58               |

As at December 30, 2017, we had approximately 420 shareholders of record. We have never paid cash dividends on our common stock and do not anticipate paying dividends in the foreseeable future. Our future dividend policy will depend on our earnings, capital requirements and financial condition, requirements of the financial agreements to which we are then a party and other factors considered relevant by our board of directors. Additionally, the terms of our existing debt instruments include covenants that restrict our ability to pay dividends to shareholders. The receipt of cash dividends by U.S. shareholders from a Canadian corporation, such as we are, may be subject to Canadian withholding tax.

**Equity Compensation Plan Information**

The following table provides information as at December 30, 2017 with respect to our common shares that may be issued under the Company's stock incentive and employee share purchase plans:

| <b>Plan Category</b>                                          | <b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</b><br>(a) | <b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b><br>(b) | <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b><br>(c) |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by securities holders:     |                                                                                                            |                                                                                           |                                                                                                                                                           |
| 2013 Stock Incentive Plan <sup>(1)</sup>                      | 5,601,836                                                                                                  | \$7.51 <sup>(3)</sup>                                                                     | 3,674,298                                                                                                                                                 |
| Employee Share Purchase Plan                                  | -                                                                                                          | -                                                                                         | 1,112,073                                                                                                                                                 |
| Equity compensation plans not approved by securities holders: |                                                                                                            |                                                                                           |                                                                                                                                                           |
| CEO Plan <sup>(2)</sup>                                       | 851,720                                                                                                    | \$7.00 <sup>(3)</sup>                                                                     | -                                                                                                                                                         |
| <b>Total</b>                                                  | <b>6,453,556</b>                                                                                           | <b>\$7.44</b>                                                                             | <b>4,786,371</b>                                                                                                                                          |

(1) Represents common shares of the Company issuable in respect of 3,306,728 stock options, 775,356 restricted stock units ( RSUs ) and 1,519,752 performance share units ( PSUs ) granted to selected employees and directors of the Company.

(2) Represents common shares of the Company issuable in respect of 473,940 performance-based stock options, 100,000 RSUs and 277,780 PSUs granted to the Chief Executive Officer of the Company.

(3) Vested RSUs and PSUs entitle the holder to receive one common share per unit without payment of additional consideration. Accordingly, these units are disregarded for purposes of computing the weighted-average exercise price.

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**Shareholder Return Performance Graph**

This performance graph shall not be deemed filed for purposes of Section 18 of the Exchange Act or incorporated by reference into any filing of SunOpta under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph compares the five-year cumulative shareholder return on our common shares to the cumulative total return of the S&P/TSX Composite and the NASDAQ Industrial Indices for the period which commenced December 29, 2012.

|                         | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| SunOpta Inc.            | 100.00      | 177.80      | 210.48      | 121.49      | 125.22      | 137.66      |
| Nasdaq Industrial Index | 100.00      | 143.14      | 145.99      | 158.02      | 171.26      | 212.45      |
| S&P/TSX Composite Index | 100.00      | 109.56      | 117.69      | 104.64      | 122.95      | 130.37      |

Assumes that \$100.00 was invested in our common shares and in each index on December 29, 2012.

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**Item 6. Selected Financial Data**

The following information has been derived from financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with the consolidated financial statements and related notes thereto prepared in accordance with U.S. GAAP contained in Item 8 of this report, as well as the discussion in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations .

|                                                                         | 2017<br>\$               | 2016<br>\$              | 2015 <sup>(1)</sup><br>\$ | 2014<br>\$            | 2013 <sup>(2)</sup><br>\$ |
|-------------------------------------------------------------------------|--------------------------|-------------------------|---------------------------|-----------------------|---------------------------|
| Revenues                                                                | 1,279,593                | 1,346,731               | 1,145,134                 | 1,102,745             | 998,660                   |
| Earnings (loss) from continuing operations attributable to SunOpta Inc. | (135,320) <sup>(3)</sup> | (50,618) <sup>(4)</sup> | (2,996)                   | 19,295 <sup>(5)</sup> | (8,396) <sup>(6)</sup>    |
| Basic earnings (loss) per share from continuing operations              | (1.66)                   | (0.61)                  | (0.04)                    | 0.29                  | (0.13)                    |
| Diluted earnings (loss) per share from continuing operations            | (1.66)                   | (0.61)                  | (0.04)                    | 0.28                  | (0.13)                    |
| Total assets                                                            | 982,173                  | 1,129,558               | 1,219,203                 | 640,950               | 705,935                   |
| Bank indebtedness                                                       | 234,090                  | 201,494                 | 159,773                   | 78,454                | 126,274                   |
| Long-term debt (including current portion)                              | 228,033                  | 231,087                 | 322,995                   | 4,581                 | 6,139                     |
| Long-term liabilities (including current portion)                       | 13,652                   | 20,854                  | 23,052                    | 1,086                 | 3,205                     |

(1) Includes the results of operations of Sunrise Holdings (Delaware), Inc. (acquired October 9, 2015), Niagara Natural Fruit Snack Company Inc. (assets acquired August 11, 2015) and Citrusource, LLC (acquired March 2, 2015) from the respective dates of acquisition.

(2) Includes the results of operations of Organic Land Corporation OOD (acquired December 31, 2012) from the date of acquisition.

(3) Includes a goodwill impairment charge of \$115.0 million related to the Healthy Fruit reporting unit of the Consumer Products operating segment, as well as a charge of \$18.2 million for the impairment of long-lived assets associated with the exit from flexible resealable pouch and nutrition bar product lines and operations, and consolidation of roasted snack operations, as well as the closure of a juice processing facility located in San Bernardino, California.

(4) Includes a goodwill impairment charge of \$17.5 million related to the Sunflower reporting unit of the Raw Material Sourcing and Supply operating segment, as well as a charge of \$13.3 million for the impairment of long-lived assets associated with the closure of the San Bernardino juice facility and a soy extraction facility located in Heuvelton, New York.

(5) Includes a charge for the impairment of investment of \$8.4 million, as well as a gain on disposal on assets of \$1.3 million.

(6) Includes a charge for the impairment of investment of \$21.5 million.



## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Financial Information**

This Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) section provides analysis of our operations and financial position for the fiscal year ended December 30, 2017 and includes information available to February 28, 2018, unless otherwise indicated herein. It is supplementary information and should be read in conjunction with the consolidated financial statements included elsewhere in this report.

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 , target , intend , project , potential , continue , believe , would , should , might , plan , will , may , predict , or other similar expressions concerning matters that are not facts. To the extent any forward-looking statements contain future-oriented financial information or financial outlooks, such information is being provided to enable a reader to assess our financial condition, material changes in our financial condition, our results of operations, and our liquidity and capital resources. Readers are cautioned that this information may not be appropriate for any other purpose, including investment decisions.

Forward-looking statements contained in this MD&A are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While we consider these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking statements are also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors are more fully described in the Risk Factors section at Item 1A of this 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 noted herein, all currency amounts in this MD&A are expressed in U.S. dollars. All tabular dollar amounts are expressed in thousands of U.S. dollars, except per share amounts.

### **Overview**

The composition of our reportable segments is as follows:

Global Ingredients aggregates our North American-based Raw Material Sourcing and Supply and European-based International Sourcing and Supply operating segments focused on the procurement and sale of specialty and organic grains and seeds, raw material ingredients, value-added grain- and cocoa-based ingredients, and organic commodities.

Consumer Products consists of three main commercial platforms: Healthy Beverages, Healthy Fruit and Healthy Snacks. Healthy Beverages includes aseptic packaged products including non-dairy beverages, broths and teas; refrigerated premium juices; and shelf-stable juices and functional waters. Healthy Fruit includes individually quick frozen ( IQF ) fruits for retail; IQF and bulk frozen fruit for foodservice; and custom fruit preparations for industrial use. Healthy Snacks is focused on fruit snack offerings, and formerly included our flexible resealable pouch and nutrition bar product lines, which we exited in 2017.



For a more detailed description of our operating groups and their businesses, please see the **Business** section at Item 1 of this Form 10-K.

### **Fiscal Year**

We operate on a fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal years 2017, 2016 and 2015 were each 52-week periods ending on December 30, 2017, December 31, 2016, and January 2, 2016, respectively.

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## Value Creation Plan

On October 7, 2016, we entered into a strategic partnership with Oaktree Capital Management L.P., a private equity investor (together with its affiliates, Oaktree ). On October 7, 2016, Oaktree invested \$85.0 million through the purchase of cumulative, non-participating Series A Preferred Stock (the Preferred Stock ) of our wholly-owned subsidiary, SunOpta Foods Inc. ( SunOpta Foods ).

Following the strategic partnership, with the assistance of Oaktree, we conducted a thorough review of our operations, management and governance, with the objective of maximizing our ability to deliver long-term value to our shareholders. As a product of this review our management and the Board of Directors developed a Value Creation Plan built on four pillars: portfolio optimization, operational excellence, go-to-market effectiveness and process sustainability. The Value Creation Plan is a broad-based initiative focused on increasing shareholder value through strategic investments made to the people and assets of the Company to deliver sustained profitable growth. We expect the Value Creation Plan to be implemented in phases, and span several years.

During 2017 and 2016, costs incurred in connection with measures taken under the Value Creation Plan included inventory and long-lived asset impairment charges and facility closure costs primarily related to the closures of our San Bernardino, California, juice and Heuvelton, New York, soy extraction facilities; the exits from flexible resealable pouch and nutrition bar product lines and operations; and consolidations of our grain handling and roasted snack operations. In addition, we incurred employee recruitment, relocation, retention and severance costs related to exit activities and organizational changes within management and executive teams, and recruiting efforts in the areas of quality, sales, marketing, operations and engineering. We also incurred third-party legal advisory, consulting and temporary labor costs in support of the Value Creation Plan.

The following table summarizes costs incurred since the inception of the Value Creation Plan to December 30, 2017:

|                                                                | Asset<br>impairments<br>and facility<br>closure costs<br>\$ | Employee<br>recruitment,<br>retention and<br>termination<br>costs<br>\$ | Consulting<br>fees and<br>temporary<br>labor costs<br>\$ | Total<br>\$ |
|----------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------|-------------|
| <b>Fiscal 2016</b>                                             |                                                             |                                                                         |                                                          |             |
| Costs incurred and charged to expense                          | 11,522                                                      | 2,763                                                                   | 4,041                                                    | 18,326      |
| Cash payments                                                  | -                                                           | (694)                                                                   | (2,384)                                                  | (3,078)     |
| Non-cash adjustments                                           | (11,522)                                                    | (266)                                                                   | -                                                        | (11,788)    |
| Balance payable, December 31, 2016                             | -                                                           | 1,803                                                                   | 1,657                                                    | 3,460       |
| <b>Fiscal 2017</b>                                             |                                                             |                                                                         |                                                          |             |
| Costs incurred and charged to expense                          | 21,766                                                      | 11,618                                                                  | 16,528                                                   | 49,912      |
| Cash payments, net of proceeds on disposal of assets           | (10,746)                                                    | (9,683)                                                                 | (18,185)                                                 | (38,614)    |
| Non-cash adjustments                                           | (11,720)                                                    | 689                                                                     | -                                                        | (11,031)    |
| Balance payable (receivable), December 30, 2017 <sup>(1)</sup> | (700)                                                       | 4,427                                                                   | -                                                        | 3,727       |

- (1) Balance receivable under asset impairments and facility closure costs represents remaining proceeds on the sale of nutrition bar equipment received at closing on January 3, 2018. Total proceeds were \$0.9 million.

In addition to the costs reflected in the preceding table, we made capital investments at several of our manufacturing facilities to enhance food safety and production efficiency.



Costs incurred and charged to expense for the years ended December 30, 2017 and December 31, 2016 were recorded in the consolidated statement of operations as follows:

|                                                             | December 30,<br>2017<br>\$ | December 31,<br>2016<br>\$ |
|-------------------------------------------------------------|----------------------------|----------------------------|
| Cost of goods sold <sup>(1)</sup>                           | 3,189                      | -                          |
| Selling, general and administrative expenses <sup>(2)</sup> | 22,894                     | 4,041                      |
| Other expense <sup>(3)</sup>                                | 23,829                     | 14,285                     |
|                                                             | 49,912                     | 18,326                     |

- (1) Inventory write-downs and facility closure costs recorded in cost of goods sold were allocated to the Consumer Products operating segment.
- (2) Consulting fees and temporary labor costs, and employee recruitment, relocation and retention costs recorded in selling, general and administrative expenses were allocated to Corporate Services.
- (3) For the year ended December 30, 2017, asset impairment and employee termination costs recorded in other expense were allocated as follows: Raw Material Sourcing and Supply operating segment - \$2.1 million; Consumer Products operating segment - \$20.6 million; and Corporate Services - \$1.1 million. For the year ended December 31, 2016, asset impairment and employee termination costs recorded in other expense were allocated as follows: Raw Material Sourcing and Supply operating segment - \$1.6 million; Consumer Products operating segment - \$10.6 million; and Corporate Services - \$2.1 million.

We do not expect to incur and expense significant additional direct costs related to the Value Creation Plan beyond 2017; however, we will continue to incur annual lease costs of approximately \$0.5 million related to our nutrition bar processing facility, until such time that we can locate an interested party to assume the lease. This lease extends until December 2020. Our expectation for additional costs related to the Value Creation Plan does not include currently unforeseen asset impairment charges or employee-related costs that may arise from future actions taken under the plan.

For more information regarding the Value Creation Plan, see note 4 to the consolidated financial statements at Item 15 of this Form 10-K.

### **Recall of Certain Roasted Sunflower Kernel Products**

During the second quarter of 2016, we announced a voluntary recall of certain roasted sunflower kernel products due to potential contamination with *Listeria monocytogenes* bacteria. Estimated losses related to the recall totaled \$47.5 million as at December 30, 2017, compared with \$40.0 million as at December 31, 2016, comprised of estimates for customer losses and direct incremental costs that we incurred. Our estimates for customer losses are provisional and were determined based on an assessment of the information available up to the date of filing of this Form 10-K, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. We have general liability and product recall insurance policies with aggregate limits of \$47.0 million under which we expect to recover recall-related costs. As at December 30, 2017, we had recognized recoveries up to the limit of the coverage available under our insurance policies. Consequently, to the extent any losses or out-of-pocket costs are excluded under the insurance policies or additional losses are recognized related to existing or new claims, these excluded or excess losses or costs will be recognized as a charge to future earnings. As at December 30, 2017, we had settled customer claims and direct costs in the amount of \$40.5 million, which settlements were fully funded under our general liability and product recall insurance policies.

For more information regarding the recall, see note 6 to the consolidated financial statements at Item 15 of this Form 10-K.

### **Business Development**

Our significant business development activities include:

On April 6, 2016, we completed the sale of our 66% holding of common shares of Opta Minerals Inc. ( Opta Minerals ). The sale of Opta Minerals was consistent with our objective of divesting our non-core assets in order to become a pure-play organic and healthy foods company. We have no continuing involvement with Opta Minerals.

For more information regarding the sale of Opta Minerals, see note 5 to the consolidated financial statements at Item 15 of this Form 10-K.

On October 9, 2015, we acquired 100% of the issued and outstanding common shares of Sunrise Holding (Delaware), Inc. ( Sunrise ), for total consideration of \$472.7 million in cash (the Sunrise Acquisition ). Sunrise is a processor of conventional and organic frozen fruit in the U.S. and Mexico. The acquisition of Sunrise was aligned with our strategic focus on organic and healthy foods.

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On August 11, 2015, we acquired the net operating assets of Niagara Natural Fruit Snack Company Inc. ( Niagara Natural ), for a cash purchase price of \$6.5 million, plus contingent consideration of \$2.3 million. Niagara Natural is a manufacturer of all-natural fruit snacks, and is located in the Niagara Region of Ontario.

On March 2, 2015, we acquired Citrusource, LLC ( Citrusource ), a producer of premium not-from-concentrate private label organic and conventional orange juice and citrus products in the U.S., for \$13.3 million in cash, plus contingent consideration of \$18.4 million.

Sunrise, Niagara Natural and Citrusource have been included in the Consumer Products operating segment since their respective dates of acquisition. For more information regarding these acquisitions, see note 2 to the consolidated financial statements at Item 15 of this Form 10-K.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. The estimates and assumptions made require us to exercise our judgment and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. We continually evaluate the information that forms the basis of our estimates and assumptions as our business and the business environment generally changes. The use of estimates is pervasive throughout our financial statements. The following are the accounting estimates which we believe to be most significant to our business.

#### ***Revenue Recognition***

We recognize revenue at the time of delivery of the product and when all of the following have occurred: a sales agreement is in place; the price is fixed or determinable; and collection is reasonably assured. Consideration given to customers such as value incentives, rebates, early payment discounts and other discounts are recorded as reductions to revenues at the time of sale.

#### ***Accounts Receivable***

Our accounts receivable primarily includes amounts due from our customers. The carrying value of each account is carefully monitored with a view to assessing the likelihood of collection. An allowance for doubtful accounts is provided for as an estimate of losses that could result from customers defaulting on their obligation to us. In assessing the amount of reserve required, a number of factors are considered including the age of the account, the credit-worthiness of the customer, payment terms, the customer's historical payment history and general economic conditions. Because the amount of the reserve is an estimate, the actual amount collected could differ from the carrying value of the amount receivable. Note 8 of the consolidated financial statements at Item 15 of this Form 10-K provides an analysis of the changes in the allowance for doubtful accounts.

#### ***Inventory***

Inventory is our largest current asset and consists primarily of raw materials and finished goods held for sale. Inventories are valued at the lower of cost and estimated net realizable value except for certain grain inventories that are carried at market value. In order to determine the value of inventory at the balance sheet date, we evaluate a number of factors to determine the adequacy of provisions for inventory. These factors include the age of inventory, the amount of inventory held by type, future demand for products, and the expected future selling price we expect to realize by selling the inventory. Our estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount

received on sale could differ from our estimated value of inventory. We perform a review of our inventory by operation and product line on a quarterly basis. Note 9 of the consolidated financial statements at Item 15 of this Form 10-K provides an analysis of the movements in the inventory reserve.

***Intangible Assets***

We evaluate amortizable intangible assets acquired through business combinations for impairment if events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. Our evaluation is based on an assessment of potential indicators of impairment, such as an adverse change in the business climate that could affect the value of an asset, such as the loss of a significant customer; current or forecasted operating or cash flow losses that demonstrate continuing losses associated with the use of an asset, such as the introduction of a competing product that results in a significant loss of market share; and a current expectation that, more likely than not, an intangible asset will be disposed of before the end of its previously estimated useful life, such as a plan to exit a product line or business in the near term.

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Impairment exists when the carrying amount of an amortizable intangible asset is not recoverable through undiscounted future cash flows and its carrying value exceeds its estimated fair value. A discounted cash flow analysis is typically used to determine fair value using estimates and assumptions that market participants would apply. Some of the estimates and assumptions inherent in a discounted cash flow model include the amount and timing of the projected future cash flows, and the discount rate used to reflect the risks inherent in the future cash flows. A change in any of these estimates and assumptions could produce a different fair value, which could have a material impact on our results of operations. In addition, an intangible asset's expected useful life can increase estimation risk, as longer-lived assets necessarily require longer-term cash flow forecasts, which for some of our long-lived assets can be in excess of 20 years. In connection with an impairment evaluation, we also reassess the remaining useful life of the intangible asset and modify it, as appropriate.

### ***Goodwill***

Goodwill represents the excess in a business combination of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized but is instead tested for impairment at least annually, or whenever events or circumstances change between the annual impairment tests that would indicate the carrying amount of goodwill may be impaired. We perform the annual test for goodwill impairment in the fourth quarter of each fiscal year. Prior to fiscal 2017, we performed a quantitative test for goodwill impairment by comparing the carrying amount of each reporting unit to its estimated fair value (Step 1). If the carrying amount exceeded the reporting unit's fair value, there was a potential impairment of goodwill. Any impairment of goodwill was measured by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill was determined by deducting the fair value of all the assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1.

Effective with the fiscal 2017 annual impairment test, we elected the early adoption of Accounting Standards Update 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill as contemplated by Step 2 of the prior goodwill impairment model. Instead, impairment charges are recognized based on the excess of a reporting unit's carrying amount over its fair value as contemplated by Step 1 of the prior goodwill impairment test model.

Goodwill is tested for impairment at the reporting unit level, which is defined as an operating segment or one level below. Our Raw Material Sourcing and Supply operating segment comprises two reporting units, namely Grains and Sunflower. Our International Sourcing and Supply operating segment consists of one reporting unit. Our Consumer Products operating segment comprises three reporting units based on commercial platforms, namely Healthy Beverages, Healthy Fruit and Healthy Snacks.

The fair values of our reporting units are determined using an income approach (discounted cash flow method). We believe an income approach provides the most reliable indication of fair value as it reflects forecasted revenues and earnings based on business and market conditions that are unique to each individual reporting unit, which a market approach may not fully incorporate. Because the business is assumed to continue in perpetuity, the discounted cash flows include a terminal value. Cash flows to perpetuity are forecasted based on projected revenue growth and our planned business strategies in future periods. Examples of planned strategies would include a plant or line expansion at an existing facility; a reduction of working capital at a specific location; and price increases or cost reductions within a reporting unit. The discount rate is based on a reporting unit's targeted weighted-average cost of capital, which is not necessarily the same as our weighted-average cost of capital. These assumptions are subject to change and are impacted by our ability to achieve our forecasts and by economic conditions that may impact future results and result in projections not being attained. Each year we re-evaluate the assumptions used to reflect changes in the business environment.

Based on the results of the annual impairment test performed for the years ended December 30, 2017 and December 31, 2016, we recognized goodwill impairment charges of \$115.0 million and \$17.5 million, respectively, related to our Healthy Fruit reporting unit in 2017 and our Sunflower reporting unit in 2016. None of the goodwill balances of our other reporting units were considered to be at risk of impairment, as the fair value of those reporting units substantially exceeded their carrying values—that is, a hypothetical 10% decrease in the fair value of any of our other reporting units would not have triggered a goodwill impairment. The results of our annual impairment tests for goodwill are described in note 11 of the consolidated financial statements at Item 15 of this Form 10-K.

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## ***Acquisitions***

Business acquisitions are accounted for by the acquisition method of accounting. Under this method, the purchase price is allocated to the assets acquired and the liabilities assumed based on the fair value at the time of the acquisition. Any excess purchase price over the fair value of identifiable assets acquired and liabilities assumed is recorded as goodwill. We believe the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions; however, these assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

The assumptions and estimates with respect to determining the fair value of customer relationship intangible assets acquired are among the most significant in our acquisition accounting and generally require the most judgment. Key variables in determining the fair value of customer relationships are the estimated customer attrition rate and the percentage of revenue growth attributable to existing customers. Changes to either or both of these variables could have a significant impact on the customer relationships intangible assets' values, and changes to the estimated customer attrition rate could have a significant impact on the estimated useful lives of these assets. The expected customer attrition rate assumed in the estimate of fair value for the customer relationships intangible assets is generally supported by an analysis of historical attrition of the acquired business's customers and consideration of its amortization policy of previously acquired customer relationships, amortization policies adopted for acquired customer relationships by other companies in similar transactions, and the contractual terms between the acquired business and its customers. The percentage of revenue growth attributable to existing customers assumed in the estimate of fair value for the customer relationships intangible assets is typically supported by an analysis of the acquired business's historical and forecasted revenue growth rates by customer. Changes in any of the assumptions or estimates used in determining the fair value of the customer relationship intangible assets could have a significant impact on the amounts assigned to goodwill in the purchase price allocation. Future net earnings can be affected by changes in these estimates resulting in an increase or decrease in amortization expense, or impairment of the intangible assets and/or goodwill. Note 2 of the consolidated financial statements at Item 15 of this Form 10-K provide information with respect to businesses acquired, and note 11 outlines annual amortization expense relating to these intangibles.

Some acquisitions involve contingent consideration to be potentially paid based on the achievement of specified future financial targets by the acquired business. Acquisition-related contingent consideration is initially recognized as a liability at estimated fair value and re-measured each reporting period with changes in the estimated fair value recognized in earnings. These estimates of fair value involve uncertainties as they include assumptions about the likelihood of achieving the specified financial targets, projections of future financial performance, and assumed discount rates. A change in any of these assumptions could produce a different fair value, which could impact the amounts assigned to assets and liabilities in the purchase price allocation, or the amounts recognized in earnings to reflect subsequent changes in the carrying value of the liability. Note 7 of the consolidated financial statements at Item 15 of this Form 10-K includes disclosures regarding the estimated fair value of contingent consideration.

## ***Contingencies***

We make estimates for payments that are contingent on the outcome of uncertain future events. These contingencies include accrued but unpaid bonuses; tax-related matters; and claims or litigation. In establishing our estimates, we consider historical experience with similar contingencies and the progress of each contingency, as well as the recommendations of internal and external advisors and legal counsel. We re-evaluate all contingencies as additional information becomes available; however, given the inherent uncertainties, the ultimate amount paid could differ from our estimates.

In particular, as discussed above under *Recall of Certain Roasted Sunflower Kernel Products*, we had recognized estimated losses of \$47.5 million related to this recall as at December 30, 2017. These estimates are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including a

review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. We may need to revise these estimates to be materially larger as we continue to work with our customers to substantiate the claims received to date and any additional claims that may be received.

***Income Taxes***

We are liable for income taxes in the U.S., Canada, and other jurisdictions where we operate. Our effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, the benefit of cross-jurisdictional financing structures, changes due to foreign exchange, changes in valuation allowance based on our recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

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In making an estimate of our income tax liability, we first assess which items of income and expense are taxable in a particular jurisdiction. This process involves a determination of the amount of taxes currently payable as well as the assessment of the effect of temporary timing differences resulting from different treatment of items for accounting and tax purposes. These differences in the timing of the recognition of income or the deductibility of expenses result in deferred income tax balances that are recorded as assets or liabilities as the case may be on our balance sheet. We also estimate the amount of valuation allowance to maintain relating to loss carry forwards and other balances that can be used to reduce future taxes payable. This judgment is based on forecasted results in the jurisdiction and certain tax planning strategies and as a result actual results may differ from forecasts. We assess the likelihood of the ultimate realization of these tax assets by looking at the relative size of the tax assets in relation to the profitability of the businesses and the jurisdiction to which they can be applied, the number of years based on management's estimate it will take to use the tax assets and any other special circumstances. If different judgments had been used, our income tax liability could have been different from the amount recorded. In addition, the taxing authorities of those jurisdictions upon audit may not agree with our assessment. Note 19 of the consolidated financial statements at Item 15 of this Form 10-K provides an analysis of the changes in the valuation allowance and the components of our deferred tax assets.

While we believe we have adequately provided for all tax positions, amounts asserted by taxing authorities could differ from our accrued position. Accordingly, additional provisions on federal, provincial, state and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

### Consolidated Results of Operations for Fiscal Years 2017 and 2016

|                                                             | December 30,<br>2017<br>\$ | December 31,<br>2016<br>\$ | Change<br>\$     | Change<br>%    |
|-------------------------------------------------------------|----------------------------|----------------------------|------------------|----------------|
| <b>Revenues</b>                                             |                            |                            |                  |                |
| Global Ingredients                                          | 550,527                    | 574,295                    | (23,768)         | -4.1%          |
| Consumer Products                                           | 729,066                    | 772,436                    | (43,370)         | -5.6%          |
| <b>Total revenues</b>                                       | <b>1,279,593</b>           | <b>1,346,731</b>           | <b>(67,138)</b>  | <b>-5.0%</b>   |
| <b>Gross Profit</b>                                         |                            |                            |                  |                |
| Global Ingredients                                          | 67,682                     | 64,374                     | 3,308            | 5.1%           |
| Consumer Products                                           | 77,405                     | 61,578                     | 15,827           | 25.7%          |
| <b>Total gross profit</b>                                   | <b>145,087</b>             | <b>125,952</b>             | <b>19,135</b>    | <b>15.2%</b>   |
| <b>Segment operating income (loss)<sup>(1)</sup></b>        |                            |                            |                  |                |
| Global Ingredients                                          | 21,951                     | 26,787                     | (4,836)          | -18.1%         |
| Consumer Products                                           | 9,905                      | 1,206                      | 8,699            | 721.3%         |
| Corporate Services                                          | (31,089)                   | (13,247)                   | (17,842)         | -134.7%        |
| <b>Total segment operating income</b>                       | <b>767</b>                 | <b>14,746</b>              | <b>(13,979)</b>  | <b>-94.8%</b>  |
| Other expense, net                                          | 23,660                     | 28,292                     | (4,632)          | -16.4%         |
| Goodwill impairment                                         | 115,000                    | 17,540                     | 97,460           | 655.6%         |
| <b>Loss from continuing operations before the following</b> | <b>(137,893)</b>           | <b>(31,086)</b>            | <b>(106,807)</b> | <b>-343.6%</b> |
| Interest expense, net                                       | 32,504                     | 43,275                     | (10,771)         | -24.9%         |
| Recovery of income taxes                                    | (35,829)                   | (23,797)                   | (12,032)         | -50.6%         |
| Loss from continuing operations <sup>(2),(3)</sup>          | (134,568)                  | (50,564)                   | (84,004)         | -166.1%        |
| Earnings attributable to non-controlling interests          | 752                        | 54                         | 698              | 1292.6%        |
|                                                             | -                          | (570)                      | 570              | 100.0%         |

Loss from discontinued operations attributable to  
SunOpta Inc.

|                                                        |           |          |          |         |
|--------------------------------------------------------|-----------|----------|----------|---------|
| <b>Loss attributable to SunOpta Inc.<sup>(4)</sup></b> | (135,320) | (51,188) | (84,132) | -164.4% |
|--------------------------------------------------------|-----------|----------|----------|---------|

(1) When assessing the financial performance of our operating segments, we use an internal measure of operating income that excludes other income/expense items and goodwill impairments determined in accordance with U.S. GAAP. This measure is the basis on which management, including the Chief Executive Officer ( CEO ), assesses the underlying performance of our operating segments.

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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 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 loss from continuing operations before the following, which we consider to be the most directly comparable U.S. GAAP financial measure.

|                                                                 | Global<br>Ingredients<br>\$ | Consumer<br>Products<br>\$ | Corporate<br>Services<br>\$ | Consolidated<br>\$ |
|-----------------------------------------------------------------|-----------------------------|----------------------------|-----------------------------|--------------------|
| <b>December 30, 2017</b>                                        |                             |                            |                             |                    |
| Segment operating income (loss)                                 | 21,951                      | 9,905                      | (31,089)                    | 767                |
| Other expense, net                                              | (2,311)                     | (21,093)                   | (256)                       | (23,660)           |
| Goodwill impairment                                             | -                           | (115,000)                  | -                           | (115,000)          |
| Earnings (loss) from continuing operations before the following | 19,640                      | (126,188)                  | (31,345)                    | (137,893)          |
| <b>December 31, 2016</b>                                        |                             |                            |                             |                    |
| Segment operating income (loss)                                 | 26,787                      | 1,206                      | (13,247)                    | 14,746             |
| Other expense, net                                              | (1,753)                     | (25,705)                   | (834)                       | (28,292)           |
| Goodwill impairment                                             | (17,540)                    | -                          | -                           | (17,540)           |
| Earnings (loss) from continuing operations before the following | 7,494                       | (24,499)                   | (14,081)                    | (31,086)           |

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.

- (2) When assessing our financial performance, we use an internal measure of earnings from continuing operations, net of non-controlling interests, determined in accordance with U.S. GAAP that includes dividends and accretion on convertible preferred stock and excludes specific items recognized in other income/expense, impairment losses on goodwill, long-lived assets and investments, other unusual items that are identified and evaluated on an individual basis, which due to their nature or size, we would not expect to occur as part of our normal business on a regular basis. We believe that the identification of these excluded items enhances an analysis of our financial performance of our business when comparing those operating results between periods, as we do not consider these items to be reflective of normal business operations.

The following table presents a reconciliation of adjusted earnings/loss from loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure. In addition, in recognition of our exit from flexible resealable pouch and nutrition bar product lines and operations (as described above under "Value Creation Plan"), we have prepared this table in a columnar format to present the effect of these operations on our consolidated results for the current and comparative period. We believe this presentation assists investors in assessing the results of the operations we have exited and the effect of those operations on our financial performance.

|                                                                     |           | Excluding flexible<br>resealable pouch<br>and nutrition bar<br>Per Diluted<br>Share |          | Flexible<br>resealable pouch<br>and nutrition bar<br>Per Diluted<br>Share |           | Consolidated<br>Per Diluted<br>Share |
|---------------------------------------------------------------------|-----------|-------------------------------------------------------------------------------------|----------|---------------------------------------------------------------------------|-----------|--------------------------------------|
| <b>For the years ended</b>                                          | \$        | \$                                                                                  | \$       | \$                                                                        | \$        | \$                                   |
| <b>December 30, 2017</b>                                            |           |                                                                                     |          |                                                                           |           |                                      |
| Loss from continuing operations                                     | (119,707) |                                                                                     | (14,861) |                                                                           | (134,568) |                                      |
| Less: earnings attributable to non-controlling interests            | (752)     |                                                                                     | -        |                                                                           | (752)     |                                      |
| Less: dividends and accretion of Series A Preferred Stock           | (7,809)   |                                                                                     | -        |                                                                           | (7,809)   |                                      |
| Loss from continuing operations available to common shareholders    | (128,268) | (1.49)                                                                              | (14,861) | (0.17)                                                                    | (143,129) | (1.66)                               |
| Adjusted for:                                                       |           |                                                                                     |          |                                                                           |           |                                      |
| Goodwill impairment <sup>(a)</sup>                                  | 115,000   |                                                                                     | -        |                                                                           | 115,000   |                                      |
| Costs related to the Value Creation Plan <sup>(b)</sup>             | 32,160    |                                                                                     | 17,752   |                                                                           | 49,912    |                                      |
| Product withdrawal and recall costs <sup>(c)</sup>                  | 1,142     |                                                                                     | -        |                                                                           | 1,142     |                                      |
| Recovery of legal settlement <sup>(d)</sup>                         | (1,024)   |                                                                                     | -        |                                                                           | (1,024)   |                                      |
| Reversal of stock-based compensation <sup>(e)</sup>                 | (546)     |                                                                                     | -        |                                                                           | (546)     |                                      |
| Other <sup>(f)</sup>                                                | 442       |                                                                                     | -        |                                                                           | 442       |                                      |
| Net income tax effect <sup>(g)</sup>                                | (18,332)  |                                                                                     | (6,923)  |                                                                           | (25,255)  |                                      |
| Change in unrecognized tax benefits <sup>(h)</sup>                  | (452)     |                                                                                     | -        |                                                                           | (452)     |                                      |
| Impact of change in enacted U.S. corporate tax rates <sup>(i)</sup> | (8,437)   |                                                                                     | -        |                                                                           | (8,437)   |                                      |
| Adjusted loss                                                       | (8,315)   | (0.10)                                                                              | (4,032)  | (0.05)                                                                    | (12,347)  | (0.14)                               |
| <b>December 31, 2016</b>                                            |           |                                                                                     |          |                                                                           |           |                                      |
| Loss from continuing operations                                     | (49,288)  |                                                                                     | (1,276)  |                                                                           | (50,564)  |                                      |
| Less: earnings attributable to                                      | (54)      |                                                                                     | -        |                                                                           | (54)      |                                      |

|                                                                              |          |        |         |        |          |        |
|------------------------------------------------------------------------------|----------|--------|---------|--------|----------|--------|
| non-controlling interests                                                    |          |        |         |        |          |        |
| Less: dividends and accretion of Series A Preferred Stock                    |          |        |         |        |          |        |
|                                                                              | (1,812)  |        | -       |        | (1,812)  |        |
| Loss from continuing operations available to common shareholders             |          |        |         |        |          |        |
|                                                                              | (51,154) | (0.60) | (1,276) | (0.01) | (52,430) | (0.61) |
| Adjusted for:                                                                |          |        |         |        |          |        |
| Costs related to business acquisitions <sup>(j)</sup>                        |          |        |         |        |          |        |
|                                                                              | 27,802   |        | -       |        | 27,802   |        |
| Costs related to the Value Creation Plan <sup>(k)</sup>                      |          |        |         |        |          |        |
|                                                                              | 18,326   |        | -       |        | 18,326   |        |
| Goodwill impairment <sup>(l)</sup>                                           |          |        |         |        |          |        |
|                                                                              | 17,540   |        | -       |        | 17,540   |        |
| Legal settlement and litigation-related legal fees <sup>(m)</sup>            |          |        |         |        |          |        |
|                                                                              | 10,850   |        | -       |        | 10,850   |        |
| Product withdrawal and recall costs <sup>(n)</sup>                           |          |        |         |        |          |        |
|                                                                              | 5,693    |        | -       |        | 5,693    |        |
| Inventory reserves and liquidation sales to de-risk positions <sup>(o)</sup> |          |        |         |        |          |        |
|                                                                              | 3,428    |        | -       |        | 3,428    |        |
| Plant start-up costs <sup>(p)</sup>                                          |          |        |         |        |          |        |
|                                                                              | 1,565    |        | -       |        | 1,565    |        |
| Write-off of debt issuance costs <sup>(q)</sup>                              |          |        |         |        |          |        |
|                                                                              | 215      |        | -       |        | 215      |        |
| Other <sup>(r)</sup>                                                         |          |        |         |        |          |        |
|                                                                              | 1,642    |        | -       |        | 1,642    |        |
| Gain on settlement of contingent consideration <sup>(s)</sup>                |          |        |         |        |          |        |
|                                                                              | (1,715)  |        | -       |        | (1,715)  |        |
| Net income tax effect <sup>(g)</sup>                                         |          |        |         |        |          |        |
|                                                                              | (25,825) |        | -       |        | (25,825) |        |
| Change in unrecognized tax benefits <sup>(h)</sup>                           |          |        |         |        |          |        |
|                                                                              | (1,268)  |        | -       |        | (1,268)  |        |
| Adjusted earnings (loss)                                                     |          |        |         |        |          |        |
|                                                                              | 7,099    | 0.08   | (1,276) | (0.01) | 5,823    | 0.07   |

- (a) Reflects the impairment of goodwill associated with the Healthy Fruit reporting unit of the Consumer Products operating segment.
- (b) Reflects inventory write-downs and facility closure costs of \$3.2 million recorded in cost of goods sold; consulting fees, temporary labor, employee recruitment, relocation and retention costs, and bad debt reserves of \$22.9 million recorded in selling, general and administrative ( SG&A ) expenses; and asset impairment charges and employee termination costs of \$23.8 million recorded in other expense (as described above under Value Creation Plan ).
- (c) Reflects costs related to the recall of certain sunflower kernel products, including a \$0.7 million adjustment for the estimated lost gross profit in the first quarter of 2017 caused by the sunflower recall, which reflected a shortfall in revenues against prior year volumes of

approximately \$3.3 million, less associated cost of goods sold of approximately \$2.6 million; and \$0.4 million of product withdrawal costs not eligible for reimbursement under our insurance policies, which were recorded in other expense.

- (d) Reflects a recovery on the early extinguishment of a rebate obligation that arose from the prior settlement of a flexible resealable pouch product recall dispute with a customer (see (m) below), which was recorded in other income.
- (e) Reflects the reversal to SG&A expenses of previously recognized stock-based compensation related to performance share units granted to certain employees as the performance conditions were not achieved.
- (f) Other included fair value adjustments related to contingent consideration arrangements; severance costs unrelated to the Value Creation Plan; and gain/loss on the sale of assets, which were recorded in other expense.
- (g) Reflects the tax effect of the preceding adjustments to earnings and reflects an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.

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- (h) Reflects the realization of previously unrecognized tax benefits, due to the expiration of the statute of limitations.
- (i) Reflects the remeasurement of deferred tax balances to reflect new U.S. corporate tax rates enacted in December 2017.
- (j) Reflects costs related to the Sunrise Acquisition, including an acquisition accounting adjustment related to Sunrise's inventory sold during the year of \$15.0 million, which was recorded in cost of goods sold; the amortization and expense of debt issuance costs incurred in connection with the initial financing related to the Sunrise Acquisition of \$10.4 million, which were recorded in interest expense; and \$2.4 million of integration costs related to the closure and consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, which were recorded in cost of goods sold and other expense.
- (k) Reflects legal and other professional advisory costs associated with the strategic review and execution of the Value Creation Plan of \$4.0 million, which were recorded in SG&A expenses; and asset impairment charges and employee termination costs of \$14.3 million recorded in other expense (as described above under "Value Creation Plan").
- (l) Reflects the impairment of goodwill associated with the Sunflower reporting unit of the Raw Material Sourcing and Supply operating segment.
- (m) Reflects a charge of \$9.0 million for the settlement of a flexible resealable pouch product recall dispute with a customer, which was recorded in other expense, and associated legal costs, which were recorded in SG&A expenses. The settlement amount included up to \$4.0 million in rebates payable to the customer over a four-year period.
- (n) Reflects costs of \$4.0 million for the withdrawal of certain consumer-packaged products for quality-related issues and the sunflower recall, of which \$1.2 million was recorded in cost of goods sold and \$2.8 million was recorded in other expense. Also reflects a \$1.7 million adjustment for the estimated lost gross profit caused by the sunflower recall, which reflects a shortfall in revenues against anticipated volumes of approximately \$9.8 million, less associated cost of goods sold of approximately \$8.1 million.
- (o) Reflects aging reserves and low margin sales to reduce inventory exposures mainly related to certain grain varieties that we exited, which were recorded in cost of goods sold.
- (p) Plant start-up costs relate to the ramp-up of production at our Allentown, Pennsylvania, facility following the completion of the addition of aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold. These start-up costs reflected the negative gross profit reported by the facility as the facility ramped up to break-even production levels.
- (q) Reflects the write-off to interest expense of \$0.2 million of remaining unamortized debt issuance costs related to our former North American credit facilities, which were replaced by a global asset-based credit facility in February 2016 (the "Global Credit Facility").
- (r) Other includes severance costs of \$0.9 million unrelated to the Value Creation Plan, and fair value adjustments related to contingent consideration arrangements of \$0.6 million, which were recorded in other expense.
- (s) Reflects a gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural, which was recorded in other income.

We believe that investors' understanding of our financial performance is enhanced by disclosing the specific items that we exclude from earnings/loss attributable to SunOpta Inc. to compute adjusted earnings/loss. However, adjusted earnings/loss is not, and should not be viewed as, a substitute for earnings prepared under U.S. GAAP. Adjusted earnings/loss is presented solely to allow investors to more fully understand how we assess our financial performance.

- (3) We use a measure of adjusted EBITDA when assessing the performance of our operations, which we believe are useful to investors' understanding of our operating profitability by excluding non-operating expenses, such as interest and income taxes, and non-cash expenses, such as depreciation, amortization, stock-based compensation and asset impairment charges, as well as other unusual items that affect the comparability of operating

performance. We also use these measures to review and assess our progress under the Value Creation Plan (as described above under "Value Creation Plan") and to assess operating performance in connection with our employee incentive programs. In addition, we are subject to certain debt covenants that restrict our ability to incur additional indebtedness unless we meet certain ratios based on pre-established measures of EBITDA. We define adjusted EBITDA as segment operating income/loss plus depreciation, amortization and non-cash stock-based compensation, and excluding other unusual items as identified in the determination of adjusted earnings (refer above to footnote (2)). The following table presents a reconciliation of segment operating income/loss and adjusted EBITDA from loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure. In addition, as described above under footnote (2), we have prepared this table in a columnar format to present the effect of flexible resealable pouch and nutrition bar operations on our consolidated results for the current and comparative periods. We believe this presentation assists investors in assessing the results of the operations we have exited and the effect of those operations on our financial performance.

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|                                                                                 | Excluding flexible<br>resealable pouch<br>and nutrition bar<br>\$ | Flexible<br>resealable pouch<br>and nutrition bar<br>\$ | Consolidated<br>\$ |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------|--------------------|
| <b>For the years ended</b>                                                      |                                                                   |                                                         |                    |
| <b>December 30, 2017</b>                                                        |                                                                   |                                                         |                    |
| Loss from continuing operations                                                 | (119,707)                                                         | (14,861)                                                | (134,568)          |
| Recovery of income taxes                                                        | (26,328)                                                          | (9,501)                                                 | (35,829)           |
| Interest expense, net                                                           | 32,504                                                            | -                                                       | 32,504             |
| Other expense, net                                                              | 8,847                                                             | 14,813                                                  | 23,660             |
| Goodwill impairment                                                             | 115,000                                                           | -                                                       | 115,000            |
| Total segment operating income (loss)                                           | 10,316                                                            | (9,549)                                                 | 767                |
| Depreciation and amortization                                                   | 31,994                                                            | 830                                                     | 32,824             |
| Stock-based compensation <sup>(a)</sup>                                         | 6,395                                                             | -                                                       | 6,395              |
| Costs related to Value Creation Plan <sup>(b)</sup>                             | 23,144                                                            | 2,939                                                   | 26,083             |
| Product withdrawal and recall costs <sup>(c)</sup>                              | 729                                                               | -                                                       | 729                |
| Adjusted EBITDA                                                                 | 72,578                                                            | (5,780)                                                 | 66,798             |
| <b>December 31, 2016</b>                                                        |                                                                   |                                                         |                    |
| Loss from continuing operations                                                 | (49,288)                                                          | (1,276)                                                 | (50,564)           |
| Recovery of income taxes                                                        | (22,981)                                                          | (816)                                                   | (23,797)           |
| Interest expense, net                                                           | 43,275                                                            | -                                                       | 43,275             |
| Other expense, net                                                              | 28,292                                                            | -                                                       | 28,292             |
| Goodwill impairment                                                             | 17,540                                                            | -                                                       | 17,540             |
| Total segment operating income (loss)                                           | 16,838                                                            | (2,092)                                                 | 14,746             |
| Depreciation and amortization                                                   | 33,320                                                            | 830                                                     | 34,150             |
| Stock-based compensation <sup>(a)</sup>                                         | 3,885                                                             | -                                                       | 3,885              |
| Costs related to business acquisitions <sup>(d)</sup>                           | 15,150                                                            | -                                                       | 15,150             |
| Costs related to Value Creation Plan <sup>(b)</sup>                             | 4,041                                                             | -                                                       | 4,041              |
| Inventory reserves and liquidation sales to<br>de-risk positions <sup>(e)</sup> | 3,428                                                             | -                                                       | 3,428              |
| Product withdrawal and recall costs <sup>(c)</sup>                              | 2,855                                                             | -                                                       | 2,855              |
| Litigation-related legal fees <sup>(f)</sup>                                    | 1,850                                                             | -                                                       | 1,850              |
| Plant start-up costs <sup>(g)</sup>                                             | 1,565                                                             | -                                                       | 1,565              |
| Adjusted EBITDA                                                                 | 82,932                                                            | (1,262)                                                 | 81,670             |

- (a) For 2017, stock-based compensation of \$6.4 million was recorded in SG&A expenses, and the reversal of \$0.7 million of previously recognized stock-based compensation, related to forfeited awards of employees that were terminated in connection with the Value Creation Plan, was recognized in other expense. For 2016, stock-based compensation of \$3.9 million was recorded in SG&A expenses.
- (b) For 2017, reflects inventory write-downs and facility closure costs of \$3.2 million recorded in cost of goods sold, and consulting fees, temporary labor, employee recruitment, relocation and retention costs, and bad debt reserves of \$22.9 million recorded in SG&A expenses. For 2016, reflects legal and other professional advisory costs of \$4.0 million recorded in SG&A expenses.
- (c) For 2017, reflects the estimated lost gross profit caused by the recall of certain sunflower kernel products of \$0.7 million, which reflected the shortfall in revenues in the first quarter of 2017 against first quarter 2016 volumes of approximately \$3.3 million, less associated cost of goods sold of approximately \$2.6 million. For 2016, reflects costs of \$1.2 million for the withdrawal of certain consumer-packaged products for quality-related issues, which was recorded in cost of goods and the estimated lost gross profit caused by the sunflower recall of \$1.7 million, which reflected a shortfall

in revenues against anticipated volumes of approximately \$9.8 million, less associated cost of goods sold of approximately \$8.1 million.

- (d) Reflects costs related to the acquisition accounting adjustment related to Sunrise's inventory sold in 2016 of \$15.0 million, and the integration costs related to the closure and consolidation of our frozen fruit processing operations following the Sunrise Acquisition of \$0.2 million, which were recorded in cost of goods sold.
- (e) Reflects aging reserves and low margin sales to reduce inventory exposures mainly related to certain grain varieties that we exited, which were recorded in cost of goods sold.
- (f) Reflects legal costs related to the settlement of the flexible resealable pouch product recall dispute with a customer, which were recorded in SG&A expenses.
- (g) Reflects the negative gross profit reported by the Allentown facility as the facility ramped up to break-even production levels.

Although we use adjusted EBITDA as a measure to assess the performance of our business and for the other purposes set forth above, this measure has limitations as analytic tools, and should not be considered in isolation, or as a substitute for an analysis of our results of operations as reported in accordance with U.S. GAAP. Some of these limitations are:

adjusted EBITDA reflects the interest expense, or the cash requirements necessary to service interest payments on our indebtedness;

adjusted EBITDA includes the payment of taxes, which is a necessary element of our operations;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements; and

adjusted EBITDA includes non-cash stock-based compensation, which is an important component of our total compensation program for employees and directors.

Because of these limitations, adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. Management compensates for these limitations by not viewing adjusted EBITDA in isolation, and specifically by using other U.S. GAAP and non-GAAP measures, such as revenues, gross profit, segment operating income, earnings and adjusted earnings to measure our operating performance. Adjusted EBITDA is not a measurement of financial performance under U.S. GAAP and neither should be considered as an alternative to our results of operations or cash flows from operations determined in accordance with U.S. GAAP, and our calculation of adjusted EBITDA may not be comparable to the calculation of a similarly titled measure reported by other companies.

- (4) In order to evaluate our results of operations, we use certain non-GAAP measures that we believe enhance an investor's ability to derive meaningful year-over-year comparisons and trends from our results of operations. In particular, we evaluate our revenues on a basis that excludes the effects of fluctuations in commodity pricing and foreign exchange rates. In addition, we exclude specific items from our reported results that due to their nature or size, we do not expect to occur as part of our normal business on a regular basis. These items are identified above under footnote (2), and in the discussion of our results of operations below. These non-GAAP measures are presented solely to allow investors to more fully assess our results of operations and should not be considered in isolation of, or as substitutes for an analysis of our results as reported under U.S. GAAP.

Revenues for the year ended December 30, 2017 decreased by 5.0% to \$1,279.6 million from \$1,346.7 million for the year ended December 31, 2016. Excluding the impact on revenues for the year ended December 30, 2017 of changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of \$15.0 million), all sales of flexible resealable pouch and nutrition bar products (a decrease in revenues of \$6.2 million), and estimated impact of the recall of certain sunflower kernel products based on shortfall against prior year volumes (a decrease in revenues of \$3.3 million), revenues decreased by 3.3% in 2017, compared with 2016. This decrease in revenues on an adjusted basis reflected a lower sales of frozen fruit products due to lower consumer demand and lost customer volumes; lower raw and roasted sunflower volumes, due to global competition and reduced customer demand following the sunflower recall; and lower sales of non-dairy aseptic beverage products related to the previously announced loss of a significant customer. These factors were partially offset by increased volumes of premium juice products and custom fruit ingredients.

Gross profit increased \$19.1 million, or 15.2%, to \$145.1 million for the year ended December 30, 2017, compared with \$126.0 million for the year ended December 31, 2016. As a percentage of revenues, gross profit for the year ended December 30, 2017 was 11.3% compared to 9.4% for the year ended December 31, 2016, an increase of 2.0%. The gross profit percentage for 2017 would have been approximately 11.6%, excluding the impact of the write-down of flexible resealable pouch and nutrition bar inventories as a result of the plan to exit these product lines (\$2.6 million), lost margin caused by the sunflower recall (\$0.7 million), and facility closure costs under the Value Creation Plan (\$0.6 million). For 2016, the gross profit percentage would have been 10.9%, excluding the impact of an acquisition accounting adjustment related to Sunrise's inventory sold in 2016 (\$15.0 million), aging reserves and low margin sales to reduce inventory exposures mainly on specialty grain varieties we exited (\$3.4 million), lost margin caused by the recall of certain sunflower kernel products (\$1.7 million), start-up costs related to the ramp-up of production at the Allentown aseptic beverage facility (\$1.6 million), and an inventory reserve for certain consumer-packaged products due to quality-related issues (\$1.2 million). Excluding these items, the gross profit percentage increased 0.7% on an adjusted basis in 2017, compared with 2016, which reflected improved operating efficiencies and raw material pricing within our healthy fruit operations, and operational savings following the closure of the San Bernardino premium juice facility, as well as a favorable foreign exchange impact on U.S. dollar-denominated raw material sourcing within our international organic ingredient operations. These factors were partially offset by higher losses within our flexible resealable pouch and nutrition bar operations, partially related to wind-down activities in the fourth quarter of 2017. In addition, we experienced lower production volumes and operating efficiencies within our sunflower and roasting operations following the recall.

Total segment operating income for the year ended December 30, 2017 decreased by \$14.0 million, or 94.8%, to \$0.8 million, compared with \$14.7 million for the year ended December 31, 2016. As a percentage of revenues, segment

operating income was 0.1% for the year ended December 30, 2017, compared with 1.1% for the year ended December 31, 2016. The decrease in segment operating income reflected a \$28.8 million increase in SG&A expenses that more than offset the higher overall gross profit as described above. The increase in SG&A expenses mainly reflected incremental consulting fees and temporary labor costs (\$12.5 million), employee recruitment, relocation and retention costs (\$6.0 million), and bad debt reserves related to exited operations (\$0.4 million) associated with the Value Creation Plan, partially offset by lower legal costs related to settlement of a product recall dispute in 2016 (\$1.9 million). Excluding these items, as well as those items identified above affecting gross profit, segment operating income as a percentage of revenues on an adjusted basis would have been 2.1% in 2017, compared with 3.2% in 2016, which reflected higher employee compensation-related costs in 2017 related to structural investments in new quality, sales, marketing, engineering and accounting resources. In addition, segment operating income reflected a foreign exchange loss of \$5.6 million in 2017, which mainly reflected the impact on our international organic ingredient and frozen fruit operations of a weakening of U.S. dollar relative to the euro and Mexican peso, compared with a loss of \$1.2 million in 2016.

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

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Other expense for the year ended December 30, 2017 of \$23.7 million mainly reflected the impairment of long-lived assets related to the exits from our flexible resealable pouch and nutrition bar product lines and operations, and consolidation of our roasted snack operations, as well as the closure of the San Bernardino facility (\$18.2 million), and employee termination costs (\$5.6 million) associated with the Value Creation Plan, partially offset by a \$1.0 million recovery on the early extinguishment of a rebate obligation that arose from the prior settlement of a recall dispute with a customer related to flexible resealable pouch products. Other expense for the year ended December 31, 2016 of \$28.3 million reflected the impairment of long-lived assets related to the closure of the San Bernardino and Heuvelton facilities (\$11.5 million), and employee termination costs (\$2.8 million) associated with the Value Creation Plan, the cost of the settlement of the aforementioned flexible resealable pouch product recall dispute with a customer (\$9.0 million, which included up to \$4.0 million in rebates payable to the customer over a four-year period), as well as costs associated with product withdrawals and recalls (\$2.8 million), and facility rationalization and severance costs primarily related to the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition (\$2.2 million). Other expenses in 2016 were partially offset by the \$1.7 million gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural.

In 2017, we recognized a non-cash goodwill impairment charge of \$115.0 million related to the Healthy Fruit reporting unit of the Consumer Products operating segment, as a result of lower-than-expected sales and operating performance for frozen fruit since the Sunrise Acquisition, and uncertainty of future sales due to lost customer volumes and declining consumer consumption trends in 2017. In 2016, we recognized a non-cash goodwill impairment charge of \$17.5 million related to the Sunflower reporting unit of the Raw Material Sourcing and Supply operating segment, due to lower anticipated sales demand and higher expected production and capital costs as a result of the sunflower recall.

Interest expense decreased by \$10.8 million to \$32.5 million for the year ended December 30, 2017, compared with \$43.3 million for the year ended December 31, 2016. Interest expense included the amortization and expense of debt issuance costs of \$2.8 million and \$11.3 million in 2017 and 2016, respectively. The year-over-year decrease in interest expense primarily reflected the reduction in non-cash amortization following the one-year maturity of the initial second lien loans used to partially fund the Sunrise Acquisition, and repayment of \$79.0 million of second lien debt with the net proceeds from the Preferred Stock offering in October 2016, and further extinguishment of \$7.5 million of second lien debt in October 2017.

We recognized a recovery of income tax of \$35.8 million for the year ended December 30, 2017 (including a \$8.4 million recovery related to the remeasurement of deferred tax balances to reflect the new corporate tax rates enacted in the U.S. in December 2017, and the realization of \$0.5 million of previously unrecognized tax benefits), compared with a recovery of income tax of \$23.8 million for the year ended December 31, 2016 (including the realization of \$1.3 million of previously unrecognized tax benefits). Excluding the effects of the change the U.S. corporate tax rate and the realization of unrecognized tax benefits, the effective tax rates for 2017 and 2016 would have been 48.6% and 39.6%, respectively, of the loss before income taxes (excluding the non-deductible goodwill impairment losses). The effective tax rates reflected the effect of a mix of pre-tax losses in the U.S. and pre-tax earnings in certain other jurisdictions. In fiscal 2017, pre-tax losses in the U.S. mainly reflected costs associated with the Value Creation Plan. In fiscal 2016, pre-tax losses in the U.S. reflected costs associated with the Value Creation Plan, as well as the Sunrise Acquisition, settlement of the product recall dispute, and product withdrawal and recall costs. With the effect of the corporate tax law changes in the U.S. beginning in fiscal 2018, we expect our effective tax rate will be approximately 24% to 26%, excluding discrete items.

Loss from continuing operations attributable to SunOpta Inc. for the year ended December 30, 2017 was \$135.3 million, compared with a loss of \$50.6 million for the year ended December 31, 2016, a decrease of \$84.7 million. Diluted loss per share from continuing operations was \$1.66 for the year ended December 30, 2017, compared with diluted loss per share from continuing operations of \$0.61 for the year ended December 31, 2016.

The loss from discontinued operations of \$0.6 million in 2016 was related to our investment in Opta Minerals, which we sold in April 2016.

On a consolidated basis, we realized a loss of \$135.3 million (diluted loss per share of \$1.66) for the year ended December 30, 2017, compared with a loss of \$51.2 million (diluted loss per share of \$0.62) for the year ended December 31, 2016.

For the year ended December 30, 2017, adjusted loss was \$12.3 million, or \$0.14 per diluted share, on a consolidated basis, compared with adjusted earnings of \$5.8 million, or \$0.07 per diluted share, on a consolidated basis for the year ended December 31, 2016. Excluding flexible resealable pouch and nutrition bar product lines and operations, adjusted loss was \$8.3 million, or \$0.10 per diluted share, for the year ended December 30, 2017, compared with adjusted earnings of \$7.1 million, or \$0.08 per diluted share, for the year ended December 31, 2016. Adjusted EBITDA for the year ended December 30, 2017 was \$66.8 million on a consolidated basis, compared with \$81.7 million on a consolidated basis for the year ended December 31, 2016. Excluding flexible resealable pouch and nutrition bar product lines and operations, adjusted EBITDA for the year ended December 30, 2017 was \$72.6 million, compared with \$82.9 million for the year ended December 31, 2016. Adjusted earnings and adjusted EBITDA are non-GAAP financial measures. See footnotes (2) and (3) to the table above for a reconciliation of adjusted earnings/loss and adjusted EBITDA from loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure.

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**Segmented Operations Information**

| <b>Global Ingredients</b> | <b>December 30, 2017</b> | <b>December 31, 2016</b> | <b>Change</b> | <b>% Change</b> |
|---------------------------|--------------------------|--------------------------|---------------|-----------------|
| Revenue                   | 550,527                  | 574,295                  | (23,768)      | -4.1%           |
| Gross Profit              | 67,682                   | 64,374                   | 3,308         | 5.1%            |
| Gross Profit %            | 12.3%                    | 11.2%                    |               | 1.1%            |
| Operating Income          | 21,951                   | 26,787                   | (4,836)       | -18.1%          |
| Operating Income %        | 4.0%                     | 4.7%                     |               | -0.7%           |

Global Ingredients contributed \$550.5 million in revenues for the year ended December 30, 2017, compared to \$574.3 million for the year ended December 31, 2016, a decrease of \$23.8 million, or 4.1%. Excluding the impact on revenues of changes including foreign exchange rates and commodity-related pricing (a decrease in revenues of \$9.7 million), and the recall of certain sunflower kernel products announced in the second quarter of 2016 (a decrease in revenues of \$3.3 million), Global Ingredients revenues decreased approximately 1.9%. The table below explains the decrease in revenue:

| <b>Global Ingredients Revenue Changes</b>                                                                                                                                                                        |                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Revenues for the year ended December 31, 2016                                                                                                                                                                    | \$574,295        |
| Lower roasted volumes due to reduced customer demand following the sunflower recall, and lower raw sunflower volumes due to competition from global suppliers                                                    | (16,642)         |
| Decreased commodity pricing for domestically-sourced specialty and organic grains and seeds                                                                                                                      | (10,943)         |
| Decreased commodity pricing for internationally-sourced organic ingredients                                                                                                                                      | (2,835)          |
| Decreased volumes of internationally-sourced organic ingredients including alternative sweeteners, seeds, fruits, vegetables and coffee, offset by increased volumes of nuts, dried fruit, animal feed and cocoa | (295)            |
| Favorable foreign exchange impact on euro-denominated sales due to a weaker U.S. dollar period-over-period                                                                                                       | 4,096            |
| Increased volumes of domestically-sourced specialty soy and organic feed, partially offset by lower volumes of specialty corn and crop inputs                                                                    | 2,851            |
| Revenues for the year ended December 30, 2017                                                                                                                                                                    | <b>\$550,527</b> |

Gross profit in Global Ingredients increased by \$3.3 million to \$67.7 million for the year ended December 30, 2017 compared to \$64.4 million for the year ended December 31, 2016, and the gross profit percentage increased by 1.1% to 12.3%. The increase in gross profit as a percentage of revenue was primarily due to a favorable foreign exchange impact on U.S. dollar-denominated raw material sourcing within our international organic ingredient operations, partially offset by an unfavorable product mix of, and reduced pricing spreads on, certain organic commodities, and reduced operating efficiencies within our sunflower and roasting operations due to lower volumes following the recall. The table below explains the increase in gross profit:

| <b>Global Ingredients Gross Profit Changes</b>                                                                                                                                                                                                                                                                                                                              |                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Gross profit for the year ended December 31, 2016                                                                                                                                                                                                                                                                                                                           | \$64,374        |
| Favorable foreign exchange impact on U.S. dollar-denominated raw material sourcing within our international organic ingredient operations (partially offset by losses on forward currency contracts included below in operating income), partially offset by reduced pricing spreads and lower volumes of certain higher-margin internationally-sourced organic ingredients | 4,494           |
| Increased specialty soy volumes and increased contribution for grain ingredients, partially offset by reduced corn volumes and pricing spread on domestically-sourced organic feed and reduced volumes of higher-margin crop inputs due to a reduction in contracted acres                                                                                                  | 1,789           |
| Lower sales volumes of raw sunflower and roasted products, and reduced operating efficiencies due to lower production volumes                                                                                                                                                                                                                                               | (2,975)         |
| Gross profit for the year ended December 30, 2017                                                                                                                                                                                                                                                                                                                           | <b>\$67,682</b> |

Operating income in Global Ingredients decreased by \$4.8 million, or 18.1%, to \$22.0 million for the year ended December 30, 2017, compared to \$26.8 million for the year ended December 31, 2016. The table below explains the decrease in operating income:

| <b>Global Ingredients Operating Income Changes</b>                                                                                                                                     |                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Operating income for the year ended December 31, 2016                                                                                                                                  | \$26,787        |
| Increase in gross profit, as explained above                                                                                                                                           | 3,308           |
| Increase in foreign exchange losses primarily related to forward currency contracts                                                                                                    | (5,256)         |
| Increase in corporate cost allocations                                                                                                                                                 | (2,083)         |
| Higher employee-related compensation costs due to increased headcount within our international organic ingredient operations, partially offset by lower non-compensation-related costs | (805)           |
| Operating income for the year ended December 30, 2017                                                                                                                                  | <b>\$21,951</b> |

Looking forward, we believe Global Ingredients is well positioned in growing organic food and non-GMO categories. We intend to focus our efforts on (i) growing our organic sourcing and supply capabilities, making certified organic ingredients a larger proportion of our overall sales; (ii) making strategic investments in key product categories that drive higher volume ingredient solutions for our customers; and (iii) leveraging our international sourcing and supply capabilities internally, and forward and backward integrating where opportunities exist. 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 ingredient 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.

| <b>Consumer Products</b> | <b>December 30, 2017</b> | <b>December 31, 2016</b> | <b>Change</b> | <b>% Change</b> |
|--------------------------|--------------------------|--------------------------|---------------|-----------------|
| Revenue                  | 729,066                  | 772,436                  | (43,370)      | -5.6%           |
| Gross Profit             | 77,405                   | 61,578                   | 15,827        | 25.7%           |
| Gross Profit %           | 10.6%                    | 8.0%                     |               | 2.6%            |
| Operating Income         | 9,905                    | 1,206                    | 8,699         | 721.3%          |
| Operating Income %       | 1.4%                     | 0.2%                     |               | 1.2%            |



Consumer Products contributed \$729.1 million in revenues for the year ended December 30, 2017, compared to \$772.4 million for the year ended December 31, 2016, a \$43.4 million, or 5.6% decrease. Excluding the impact on revenues of changes in raw fruit commodity-related pricing (a decrease in revenues of \$5.3 million) and removing all sales of flexible resealable pouch and nutrition bar products, Consumer Products revenues decreased approximately 4.5%. The table below explains the decrease in revenues:

| <b>Consumer Products Revenue Changes</b>                                                                                                                                                                                                                                                                                                              |                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Revenues for the year ended December 31, 2016                                                                                                                                                                                                                                                                                                         | \$772,436        |
| Lower volumes of frozen fruit due to declines in consumer consumption trends and lower distribution to certain retail customers, and the impact of lower raw fruit commodity-related pricing passed on to customers, partially offset by increased fruit ingredient volumes                                                                           | (37,446)         |
| Lower volumes of flexible resealable pouch products (including the impact on revenues from the closure of west coast pouch operations due to the fire at a third-party facility in the third quarter of 2016), partially offset by higher volumes of nutrition bars related to new product offerings, prior to the exit from nutrition bar operations | (6,206)          |
| Higher volumes of premium juice and fruit snack products, as well as non-dairy aseptic beverage products into the foodservice channel, offset by lower retail sales of non-dairy aseptic beverages related to the previously announced loss of a significant contract                                                                                 | 282              |
| Revenues for the year ended December 30, 2017                                                                                                                                                                                                                                                                                                         | <b>\$729,066</b> |

Gross profit in Consumer Products increased by \$15.8 million to \$77.4 million for the year ended December 30, 2017 compared to \$61.6 million for the year ended December 31, 2016, and the gross profit percentage increased by 2.6% to 10.6%. For the year ended December 30, 2017, gross profit as a percentage of revenue was impacted by a write-down of flexible resealable pouch and nutrition bar inventories as a result of the exit from these operations (\$2.6 million), as well as costs associated with the closure of the San Bernardino facility (\$0.5 million). For the year ended December 31, 2016, gross profit as a percentage of revenue was impacted by the acquisition accounting adjustment related to Sunrise inventory sold (\$15.0 million), costs associated with the expansion activities at the Allentown aseptic beverage facility (\$1.6 million), and an inventory reserve for certain consumer-packaged products due to quality-related issues (\$1.2 million). Excluding these costs, the gross profit percentage in Consumer Products would have been 11.1% for the year ended December 30, 2017, compared with 10.3% for the year ended December 31, 2016. The increase in gross profit percentage primarily reflected improved operating efficiencies and raw material pricing within our healthy fruit operations and operational savings from the closure of the San Bernardino facility, partially offset by higher losses within our flexible resealable pouch and nutrition bar operations. The table below explains the increase in gross profit:

| <b>Consumer Products Gross Profit Changes</b>                                                                                                                                                                                                                                                                                                                                                    |          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Gross profit for the year ended December 31, 2016                                                                                                                                                                                                                                                                                                                                                | \$61,578 |
| Acquisition accounting adjustment related to Sunrise inventory sold in 2016                                                                                                                                                                                                                                                                                                                      | 15,000   |
| Higher sales volumes of premium juice and fruit snack products, operational savings following the closure of the San Bernardino facility, and increased operating efficiency and cost reductions in aseptic as a result of the Value Creation Plan during the fourth quarter, offset by lower sales volumes of non-dairy aseptic beverages                                                       | 4,110    |
| Increased contribution on sales of frozen fruit, based on operating efficiencies due to the timing of the fruit harvest (which was delayed in fiscal 2016, resulting in higher labor costs and reduced supply) and favorable pricing on sourced raw fruit, as well as increased volumes of fruit ingredients, and productivity and cost reduction initiatives within fruit ingredient operations | 3,740    |

|                                                                                                                                                  |                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Higher losses within flexible resealable pouch and nutrition bar operations (including the write-down of inventories related to exit activities) | (7,023)         |
| Gross profit for the year ended December 30, 2017                                                                                                | <b>\$77,405</b> |

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Operating income in Consumer Products increased by \$8.7 million to \$9.9 million for the year ended December 30, 2017, compared to \$1.2 million for the year ended December 31, 2016. The table below explains the increase in operating income:

| <b>Consumer Products Operating Income Changes</b>                                                                                                                   |                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Operating loss for the year ended December 31, 2016                                                                                                                 | \$1,206        |
| Increase in gross profit, as explained above                                                                                                                        | 15,827         |
| Lower foreign exchange losses on international operations and lower non- compensation-related costs, partially offset by higher employee-related compensation costs | 1,390          |
| Increase in corporate cost allocations                                                                                                                              | (8,518)        |
| Operating income for the year ended December 30, 2017                                                                                                               | <b>\$9,905</b> |

Looking forward we believe Consumer Products remains well-positioned in markets with long-term growth potential. However, a continued decline in consumer consumption of frozen fruit could adversely affect the near-term performance of the Consumer Products. We intend to focus our efforts on (i) leveraging our new sales and marketing resources to create greater channel specific focus on retail and foodservice to bolster our pipeline of opportunities to diversify our portfolio and drive incremental sales volume; (ii) continuing to invest in our facilities to enhance quality, safety, and manufacturing efficiency to drive both incremental sales and cost reduction; (iii) executing procurement and supply chain cost reduction initiatives focused on leveraging our buying power and creating increased network efficiency in our planning and logistics efforts; and (iv) leveraging our innovation capabilities to bring new value-added packaged products and processes to market and to increase our capacity utilization across Consumer Products. The statements in this paragraph are forward-looking statements. See **Forward-Looking Statements** above. Unfavorable shifts in consumer preferences, increased competition, availability of raw material supply, volume decreases or loss of customers, unexpected delays in our expansion and integration plans, inefficiencies in our manufacturing processes, lack of consumer product acceptance, or our inability to successfully implement the particular goals and strategies indicated above, along with the other factors described above under **Forward-Looking Statements** , could have an adverse impact on these forward-looking expectations.

| <b>Corporate Services</b> | <b>December 30, 2017</b> | <b>December 31, 2016</b> | <b>Change</b> | <b>% Change</b> |
|---------------------------|--------------------------|--------------------------|---------------|-----------------|
| Operating Loss            | (31,089)                 | (13,247)                 | (17,842)      | -134.7%         |

Operating loss at Corporate Services increased by \$17.8 million to \$31.1 million for the year ended December 30, 2017, from a loss of \$13.2 million for the year ended December 31, 2016. The table below explains the increase in operating loss:

| <b>Corporate Services Operating Loss Changes</b>                                                                                                                                                                    |            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Operating loss for the year ended December 31, 2016                                                                                                                                                                 | \$(13,247) |
| Non-structural third-party consulting costs and employee recruitment, relocation and retention costs associated with the Value Creation Plan                                                                        | (18,469)   |
| Higher structural employee-related compensation costs due to increased headcount, and higher information technology costs, all in support of the Value Creation Plan                                                | (7,134)    |
| Increased stock-based compensation costs as a result of a change in our long-term incentive plan                                                                                                                    | (2,510)    |
| Decrease in foreign exchange gains on foreign currency transactions                                                                                                                                                 | (330)      |
| Increase in corporate cost allocations to SunOpta reporting segments, mainly related to structural investments in new quality, sales, marketing, engineering and accounting resources under the Value Creation Plan | 10,601     |

|                                                     |                   |
|-----------------------------------------------------|-------------------|
| Operating loss for the year ended December 30, 2017 | <b>\$(31,089)</b> |
|-----------------------------------------------------|-------------------|

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

## Consolidated Results of Operations for Fiscal Years 2016 and 2015

|                                                                        | December 31,<br>2016<br>\$ | January 2,<br>2016<br>\$ | Change<br>\$    | Change<br>%    |
|------------------------------------------------------------------------|----------------------------|--------------------------|-----------------|----------------|
| <b>Revenues</b>                                                        |                            |                          |                 |                |
| Global Ingredients                                                     | 574,295                    | 610,890                  | (36,595)        | -6.0%          |
| Consumer Products                                                      | 772,436                    | 534,244                  | 238,192         | 44.6%          |
| <b>Total revenues</b>                                                  | <b>1,346,731</b>           | <b>1,145,134</b>         | <b>201,597</b>  | <b>17.6%</b>   |
| <b>Gross Profit</b>                                                    |                            |                          |                 |                |
| Global Ingredients                                                     | 64,374                     | 66,461                   | (2,087)         | -3.1%          |
| Consumer Products                                                      | 61,578                     | 43,901                   | 17,677          | 40.3%          |
| <b>Total gross profit</b>                                              | <b>125,952</b>             | <b>110,362</b>           | <b>15,590</b>   | <b>14.1%</b>   |
| <b>Segment operating income (loss)<sup>(1)</sup></b>                   |                            |                          |                 |                |
| Global Ingredients                                                     | 26,787                     | 28,184                   | (1,397)         | -5.0%          |
| Consumer Products                                                      | 1,206                      | 3,208                    | (2,002)         | -62.4%         |
| Corporate Services                                                     | (13,247)                   | (10,094)                 | (3,153)         | -31.2%         |
| <b>Total segment operating income</b>                                  | <b>14,746</b>              | <b>21,298</b>            | <b>(6,552)</b>  | <b>-30.8%</b>  |
| Other expense, net                                                     | 28,292                     | 12,151                   | 16,141          | 132.8%         |
| Goodwill impairment                                                    | 17,540                     | -                        | 17,540          | -              |
| <b>Earnings (loss) from continuing operations before the following</b> | <b>(31,086)</b>            | <b>9,147</b>             | <b>(40,233)</b> | <b>-439.8%</b> |
| Interest expense, net                                                  | 43,275                     | 15,669                   | 27,606          | 176.2%         |
| Recovery of income taxes                                               | (23,797)                   | (3,390)                  | (20,407)        | -602.0%        |
| Loss from continuing operations <sup>(2),(3)</sup>                     | (50,564)                   | (3,132)                  | (47,432)        | -1514.4%       |
| Earnings (loss) attributable to non-controlling interests              | 54                         | (136)                    | 190             | 139.7%         |
| Loss from discontinued operations attributable to SunOpta Inc.         | (570)                      | (19,475)                 | 18,905          | 97.1%          |
| <b>Loss attributable to SunOpta Inc.<sup>(4)</sup></b>                 | <b>(51,188)</b>            | <b>(22,471)</b>          | <b>(28,717)</b> | <b>-127.8%</b> |

- (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 footnote (1) to the Consolidated Results of Operations for Fiscal Years 2017 and 2016 table regarding the use of this non-GAAP measure).

|                                 | Global<br>Ingredients<br>\$ | Consumer<br>Products<br>\$ | Corporate<br>Services<br>\$ | Consolidated<br>\$ |
|---------------------------------|-----------------------------|----------------------------|-----------------------------|--------------------|
| <b>December 31, 2016</b>        |                             |                            |                             |                    |
| Segment operating income (loss) | 26,787                      | 1,206                      | (13,247)                    | 14,746             |

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|                                                                 |          |          |          |          |
|-----------------------------------------------------------------|----------|----------|----------|----------|
| Other expense, net                                              | (1,753)  | (25,705) | (834)    | (28,292) |
| Goodwill impairment                                             | (17,540) | -        | -        | (17,540) |
| Earnings (loss) from continuing operations before the following | 7,494    | (24,499) | (14,081) | (31,086) |

**January 2, 2016**

|                                                                 |         |       |          |          |
|-----------------------------------------------------------------|---------|-------|----------|----------|
| Segment operating income (loss)                                 | 28,184  | 3,208 | (10,094) | 21,298   |
| Other income (expense), net                                     | (1,317) | (939) | (9,895)  | (12,151) |
| Earnings (loss) from continuing operations before the following | 26,867  | 2,269 | (19,989) | 9,147    |

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- (2) The following table presents a reconciliation of adjusted earnings from loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure (refer to footnote (2) to the Consolidated Results of Operations for Fiscal Years 2017 and 2016 table regarding the use of this non-GAAP measure). In addition, in recognition of our exit flexible resealable pouch and nutrition bar product lines and operations (as described above under Value Creation Plan ), we have prepared this table in a columnar format to present the effect of these operations on our consolidated results for the current and comparative period. We believe this presentation assists investors in assessing the results of the operations we intend to exit and the effect of those operations on our financial performance.

|                                                                              |          | Excluding flexible<br>resealable pouch<br>and nutrition bar<br>Per Diluted<br>Share |         | Flexible<br>resealable pouch<br>and nutrition bar<br>Per Diluted<br>Share |          | Consolidated<br>Per Diluted<br>Share |
|------------------------------------------------------------------------------|----------|-------------------------------------------------------------------------------------|---------|---------------------------------------------------------------------------|----------|--------------------------------------|
| For the years ended                                                          | \$       | \$                                                                                  | \$      | \$                                                                        | \$       | \$                                   |
| <b>December 31, 2016</b>                                                     |          |                                                                                     |         |                                                                           |          |                                      |
| Loss from continuing operations                                              | (49,288) |                                                                                     | (1,276) |                                                                           | (50,564) |                                      |
| Less: earnings attributable to non-controlling interests                     | (54)     |                                                                                     | -       |                                                                           | (54)     |                                      |
| Less: dividends and accretion of Series A Preferred Stock                    | (1,812)  |                                                                                     | -       |                                                                           | (1,812)  |                                      |
| Loss from continuing operations available to common shareholders             | (51,154) | (0.60)                                                                              | (1,276) | (0.01)                                                                    | (52,430) | (0.61)                               |
| Adjusted for:                                                                |          |                                                                                     |         |                                                                           |          |                                      |
| Costs related to business acquisitions <sup>(a)</sup>                        | 27,802   |                                                                                     | -       |                                                                           | 27,802   |                                      |
| Costs related to the Value Creation Plan <sup>(b)</sup>                      | 18,326   |                                                                                     | -       |                                                                           | 18,326   |                                      |
| Goodwill impairment <sup>(c)</sup>                                           | 17,540   |                                                                                     | -       |                                                                           | 17,540   |                                      |
| Legal settlement and litigation-related legal fees <sup>(d)</sup>            | 10,850   |                                                                                     | -       |                                                                           | 10,850   |                                      |
| Product withdrawal and recall costs <sup>(e)</sup>                           | 5,693    |                                                                                     | -       |                                                                           | 5,693    |                                      |
| Inventory reserves and liquidation sales to de-risk positions <sup>(f)</sup> | 3,428    |                                                                                     | -       |                                                                           | 3,428    |                                      |
| Plant start-up costs <sup>(g)</sup>                                          | 1,565    |                                                                                     | -       |                                                                           | 1,565    |                                      |
| Write-off of debt issuance costs <sup>(h)</sup>                              | 215      |                                                                                     | -       |                                                                           | 215      |                                      |
| Other <sup>(i)</sup>                                                         | 1,642    |                                                                                     | -       |                                                                           | 1,642    |                                      |
|                                                                              | (1,715)  |                                                                                     | -       |                                                                           | (1,715)  |                                      |

|                                                                            |          |        |         |          |          |        |
|----------------------------------------------------------------------------|----------|--------|---------|----------|----------|--------|
| Gain on settlement of contingent consideration <sup>(j)</sup>              |          |        |         |          |          |        |
| Net income tax effect <sup>(k)</sup>                                       | (25,825) | -      |         | (25,825) |          |        |
| Change in unrecognized tax benefits <sup>(l)</sup>                         | (1,268)  | -      |         | (1,268)  |          |        |
| Adjusted earnings (loss)                                                   | 7,099    | 0.08   | (1,276) | (0.01)   | 5,823    | 0.07   |
| <b>January 2, 2016</b>                                                     |          |        |         |          |          |        |
| Loss from continuing operations                                            | (1,417)  |        | (1,715) |          | (3,132)  |        |
| Less: earnings attributable to non-controlling interests                   | 136      |        | -       |          | 136      |        |
| Loss from continuing operations available to common shareholders           | (1,281)  | (0.02) | (1,715) | (0.02)   | (2,996)  | (0.04) |
| Adjusted for:                                                              |          |        |         |          |          |        |
| Costs related to business acquisitions <sup>(m)</sup>                      | 17,192   |        | -       |          | 17,192   |        |
| Plant expansion and start-up costs <sup>(n)</sup>                          | 4,081    |        | -       |          | 4,081    |        |
| Inventory reserves and liquidation sales to de-risk <sup>(o)</sup>         | 2,367    |        | -       |          | 2,367    |        |
| Downtime, spoilage and other costs due to equipment failure <sup>(p)</sup> | 676      |        | 1,543   |          | 2,219    |        |
| Demurrage, detention and other related expenses <sup>(q)</sup>             | 2,038    |        | -       |          | 2,038    |        |
| Litigation-related legal fees <sup>(d)</sup>                               | 1,709    |        | -       |          | 1,709    |        |
| Reversal of stock-based compensation <sup>(r)</sup>                        | (579)    |        | -       |          | (579)    |        |
| Other <sup>(s)</sup>                                                       | 4,384    |        | -       |          | 4,384    |        |
| Net income tax effect <sup>(l)</sup>                                       | (9,996)  |        | (602)   |          | (10,598) |        |
| Change in unrecognized tax benefits <sup>(m)</sup>                         | (855)    |        | -       |          | (855)    |        |
| Adjusted earnings (loss)                                                   | 19,736   | 0.27   | (774)   | (0.01)   | 18,962   | 0.26   |

(a) Reflects costs related to the Sunrise Acquisition, including an acquisition accounting adjustment related to Sunrise's inventory sold during the year of \$15.0 million, which was recorded in cost of

goods sold; the amortization and expense of debt issuance costs incurred in connection with the initial financing related to the Sunrise Acquisition of \$10.4 million, which were recorded in interest expense; and \$2.4 million of integration costs related to the closure and consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, which were recorded in cost of goods sold and other expense.

- (b) Reflects legal and other professional advisory costs associated with the strategic review and execution of the Value Creation Plan of \$4.0 million, which were recorded in SG&A expenses; and asset impairment charges and employee termination costs of \$14.3 million recorded in other expense (as described above under Value Creation Plan ).

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- (c) Reflects the impairment of goodwill associated with the Sunflower reporting unit of the Raw Material Sourcing and Supply operating segment.
- (d) Reflects a charge of \$9.0 million for the settlement of a flexible resealable pouch product recall dispute with a customer, which was recorded in other expense, and associated legal costs of \$1.9 million (2015 - \$1.7 million), which were recorded in SG&A expenses. The settlement amount included up to \$4.0 million in rebates payable to the customer over a four-year period.
- (e) Reflects costs of \$4.0 million for the withdrawal of certain consumer-packaged products for quality-related issues and the sunflower recall, of which \$1.2 million was recorded in cost of goods sold and \$2.8 million was recorded in other expense. Also reflects a \$1.7 million adjustment for the estimated lost gross profit caused by the sunflower recall, which reflects a shortfall in revenues against anticipated volumes of approximately \$9.8 million, less associated cost of goods sold of approximately \$8.1 million.
- (f) Reflects aging reserves and low margin sales to reduce inventory exposures mainly related to certain grain varieties that we exited, which were recorded in cost of goods sold.
- (g) Plant start-up costs relate to the ramp-up of production at the Allentown facility following the completion of the addition of aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold. These start-up costs reflected the negative gross profit reported by the facility as the facility ramped up to break-even production levels.
- (h) Reflects the write-off to interest expense of \$0.2 million of remaining unamortized debt issuance costs related to our former North American credit facilities, which were replaced by the Global Credit Facility.
- (i) Other includes severance costs of \$0.9 million unrelated to the Value Creation Plan, and fair value adjustments related to contingent consideration arrangements of \$0.6 million, which were recorded in other expense.
- (j) Reflects a gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural, which was recorded in other income.
- (k) Reflects the tax effect of the preceding adjustments to earnings and reflects an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.
- (l) Reflects the realization of previously unrecognized tax benefits, due to the expiration of the statute of limitations.
- (m) Reflects costs related to the Sunrise Acquisition, including an acquisition accounting adjustment related to Sunrise's inventory sold subsequent to the acquisition date of \$4.0 million, which was recorded in cost of goods sold; acquisition- and integration-related costs incurred in connection with the Sunrise Acquisition of \$7.8 million, which were recorded in other expense; and the amortization and expense of debt issuance costs incurred in connection with the initial financing related to the Sunrise Acquisition of \$5.4 million, which were recorded in interest expense.
- (n) Reflects costs related to the retrofit of our San Bernardino, California, juice facility and expansion of the Allentown facility to add aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold.
- (o) Reflects inventory reserves and low margin sales incurred to reduce inventory exposures in certain organic raw materials, which were recorded in cost of goods sold.
- (p) Reflects downtime and spoilage caused by equipment failures, which were recorded in cost of goods sold.
- (q) Reflects additional logistics costs stemming from capacity constraints on imports and exports within the Global Ingredients segment, which were recorded in cost of goods sold.
- (r) Reflects the reversal to SG&A expenses of previously recognized stock-based compensation related to performance share units granted to certain employees as the performance conditions were not achieved.
- (s) Other includes severance benefits of \$2.1 million for a former CEO; fair value adjustments related to contingent consideration arrangements; and gain/loss on disposal of assets, which were recorded in

other expense.

- (3) The following table presents a reconciliation of segment operating income/loss and adjusted EBITDA from loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure (refer to footnote (3) to the Consolidated Results of Operations for the Fiscal Years 2017 and 2016 table regarding the use of this non-GAAP measure). In addition, as described above under footnote (2), we have prepared this table in a columnar format to present the effect of flexible resealable pouch and nutrition bar operations on our consolidated results for the current and comparative period. We believe this presentation assists investors in assessing the results of the operations we have exited and the effect of those operations on our financial performance.

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|                                                                                 | Excluding flexible<br>resealable pouch<br>and nutrition bar<br>\$ | Flexible<br>resealable pouch<br>and nutrition bar<br>\$ | Consolidated<br>\$ |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------|--------------------|
| <b>For the years ended</b>                                                      |                                                                   |                                                         |                    |
| <b>December 31, 2016</b>                                                        |                                                                   |                                                         |                    |
| Loss from continuing operations                                                 | (49,288)                                                          | (1,276)                                                 | (50,564)           |
| Recovery of income taxes                                                        | (22,981)                                                          | (816)                                                   | (23,797)           |
| Interest expense, net                                                           | 43,275                                                            | -                                                       | 43,275             |
| Other expense, net                                                              | 28,292                                                            | -                                                       | 28,292             |
| Goodwill impairment                                                             | 17,540                                                            | -                                                       | 17,540             |
| Total segment operating income (loss)                                           | 16,838                                                            | (2,092)                                                 | 14,746             |
| Depreciation and amortization                                                   | 33,320                                                            | 830                                                     | 34,150             |
| Stock-based compensation <sup>(a)</sup>                                         | 3,885                                                             | -                                                       | 3,885              |
| Costs related to business acquisitions <sup>(b)</sup>                           | 15,150                                                            | -                                                       | 15,150             |
| Costs related to Value Creation Plan <sup>(c)</sup>                             | 4,041                                                             | -                                                       | 4,041              |
| Inventory reserves and liquidation sales to<br>de-risk positions <sup>(d)</sup> | 3,428                                                             | -                                                       | 3,428              |
| Product withdrawal and recall costs <sup>(e)</sup>                              | 2,855                                                             | -                                                       | 2,855              |
| Litigation-related legal fees <sup>(f)</sup>                                    | 1,850                                                             | -                                                       | 1,850              |
| Plant start-up costs <sup>(g)</sup>                                             | 1,565                                                             | -                                                       | 1,565              |
| Adjusted EBITDA                                                                 | 82,932                                                            | (1,262)                                                 | 81,670             |
| <b>January 2, 2016</b>                                                          |                                                                   |                                                         |                    |
| Loss from continuing operations                                                 | (1,417)                                                           | (1,715)                                                 | (3,132)            |
| Recovery of income taxes                                                        | (2,294)                                                           | (1,096)                                                 | (3,390)            |
| Interest expense, net                                                           | 15,669                                                            | -                                                       | 15,669             |
| Other expense, net                                                              | 12,151                                                            | -                                                       | 12,151             |
| Total segment operating income (loss)                                           | 24,109                                                            | (2,811)                                                 | 21,298             |
| Depreciation and amortization                                                   | 20,372                                                            | 635                                                     | 21,007             |
| Stock-based compensation <sup>(a)</sup>                                         | 3,512                                                             | -                                                       | 3,512              |
| Plant expansion and start-up costs <sup>(h)</sup>                               | 4,081                                                             | -                                                       | 4,081              |
| Costs related to business acquisitions <sup>(b)</sup>                           | 4,000                                                             | -                                                       | 4,000              |
| Inventory reserves and liquidation sales to<br>de-risk positions <sup>(i)</sup> | 2,367                                                             | -                                                       | 2,367              |
| Downtime, spoilage and other costs due to<br>equipment failure <sup>(j)</sup>   | 480                                                               | 1,739                                                   | 2,219              |
| Demurrage, detention and other related<br>expenses <sup>(k)</sup>               | 2,038                                                             | -                                                       | 2,038              |
| Litigation-related legal fees <sup>(f)</sup>                                    | 1,709                                                             | -                                                       | 1,709              |
| Adjusted EBITDA                                                                 | 62,668                                                            | (437)                                                   | 62,231             |

- (a) For 2016 and 2015, stock-based compensation of \$3.9 million and \$3.5 million, respectively, was recorded in SG&A expenses.
- (b) For 2016, reflects costs related to the acquisition accounting adjustment related to Sunrise's inventory sold in 2016 of \$15.0 million, and the integration costs related to the closure and consolidation of our frozen fruit processing operations following the Sunrise Acquisition of \$0.2 million, which were recorded in cost of goods sold. For 2015, reflects costs related to the acquisition accounting adjustment related to Sunrise's inventory sold subsequent to the acquisition date of \$4.0 million.
- (c)

Reflects legal and other professional advisory costs of \$4.0 million recorded in SG&A expenses.

- (d) Reflects aging reserves and low margin sales to reduce inventory exposures mainly related to certain grain varieties that we exited, which were recorded in cost of goods sold.
- (e) Reflects costs of \$1.2 million for the withdrawal of certain consumer-packaged products for quality-related issues, which was recorded in cost of goods and the estimated lost gross profit caused by the sunflower recall of \$1.7 million, which reflected a shortfall in revenues against anticipated volumes of approximately \$9.8 million, less associated cost of goods sold of approximately \$8.1 million.
- (f) Reflects legal costs related to the settlement of the flexible resealable pouch product recall dispute with a customer, which were recorded in SG&A expenses.
- (g) Reflects the negative gross profit reported by the Allentown facility as the facility ramped up to break-even production levels.
- (h) Reflects costs related to the retrofit of our San Bernardino, California, juice facility and expansion of the Allentown facility to add aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold.
- (i) Reflects inventory reserves and low margin sales incurred to reduce inventory exposures in certain organic raw materials, which were recorded in cost of goods sold.
- (j) Reflects downtime and spoilage caused by equipment failures, which were recorded in cost of goods sold.
- (k) Reflects additional logistics costs stemming from capacity constraints on imports and exports within the Global Ingredients segment, which were recorded in cost of goods sold.

(4) Refer to footnote (4) to the Consolidated Results of Operations for the Fiscal Years 2017 and 2016 table regarding the use of certain other non- GAAP measures in the discussion of our results of operations below.

Revenues for the year ended December 31, 2016 increased by 17.6% to \$1,346.7 million from \$1,145.1 million for the year ended January 2, 2016. Excluding the impact on revenues for the year ended December 31, 2016 of business acquisitions and associated product rationalizations (an increase in revenues of approximately \$230.8 million), changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately \$28.1 million), estimated impact of the recall of certain sunflower kernel products based on shortfall against anticipated volumes (a decrease in revenues of approximately \$9.8 million), and estimated impact on west coast pouch operations as a result of a fire at a third-party facility (a decrease in revenues of approximately \$5.1 million), revenues increased 1.0% in 2016, compared with 2015. This increase in revenues on an adjusted basis reflected higher demand for organic ingredients and growth in aseptic beverage volumes with the added output from the Allentown facility and new product launches. These positive factors were mostly offset by lower volumes of specialty raw materials driven by a reduction in contracted acres and lower retail market demand for frozen fruit in the fourth quarter of the 2016.

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Gross profit increased \$15.6 million, or 14.1%, to \$126.0 million for the year ended December 31, 2016, compared with \$110.4 million for the year ended January 2, 2016. As a percentage of revenues, gross profit for the year ended December 31, 2016 was 9.4% compared to 9.6% for the year ended January 2, 2016, a decrease of 0.2%. The gross profit percentage for 2016 would have been approximately 10.9%, excluding the impact of an acquisition accounting adjustment related to Sunrise's inventory sold in 2016 (\$15.0 million), aging reserves and low margin sales to reduce inventory exposures mainly on specialty grain varieties we were exiting (\$3.4 million), lost margin caused by the recall of certain sunflower kernel products (\$1.7 million), start-up costs related to the ramp-up of production at the Allentown aseptic beverage facility (\$1.6 million), and an inventory reserve for certain consumer-packaged products due to quality-related issues (\$1.2 million). For 2015, the gross profit percentage would also have been approximately 10.9%, excluding the impact of costs related to the retrofit of the San Bernardino juice facility and expansion of the Allentown facility to add aseptic beverage production capabilities (\$4.1 million), an acquisition accounting adjustment related to the Sunrise's inventory sold subsequent to the acquisition date (\$4.0 million), aging reserves and low margin sales to reduce inventory exposures on certain organic raw materials (\$2.4 million), downtime and spoilage caused by equipment failures at the Allentown pouch facility (\$2.2 million), and demurrage, detention and other related expenses (\$2.0 million). Excluding these items, the year-over-year gross profit percentage on an adjusted basis reflected increased efficiency and lower costs at our aseptic beverage operations and improved pricing spreads on organic ingredients. These positive factors were offset by increased raw material costs for frozen strawberries that could not be passed on immediately to customers, as well as production inefficiencies within our frozen fruit operations in the first half of 2016 caused by a late harvest and the resultant shortage of strawberries. In addition, we experienced lower pricing spreads on specialty corn and soy and reduced throughput in our sunflower and roasting operations with the implementation of new food safety and quality processes.

Total segment operating income for the year ended December 31, 2016 decreased by \$6.6 million, or 30.8%, to \$14.7 million, compared with \$21.3 million for the year ended January 2, 2016. As a percentage of revenues, segment operating income was 1.1% for the year ended December 31, 2016, compared with 1.9% for the year ended January 2, 2016. The decrease in segment operating income mainly reflected a \$12.9 million increase in SG&A expenses and \$6.3 million increase in intangible asset amortization, which more than offset the higher overall gross profit as described above. The increase in SG&A expenses in 2016, compared with 2015, reflected incremental expenses from acquired businesses, and external advisory costs associated with the strategic review and Value Creation Plan (\$4.0 million). The year-over-year increase in intangible asset amortization of \$6.3 million reflected the incremental amortization of identified intangible assets of acquired businesses. Also contributing to the decrease in segment operating income was a foreign exchange loss of \$1.2 million in 2016, compared with a foreign exchange gain of \$1.6 million in 2015, mainly reflecting the negative impact of a strengthening of the U.S. dollar relative to the peso on our Mexican frozen fruit operations in 2016, compared with the positive impact of a strengthening of the U.S. dollar relative to the euro in 2015.

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

Other expense for the year ended December 31, 2016 of \$28.3 million reflected the impairment of long-lived assets related to the closures of the San Bernardino and Heuvelton facilities (\$11.5 million), and employee termination costs (\$2.8 million) associated with the Value Creation Plan, the cost of the settlement of the aforementioned flexible resealable pouch product recall dispute with a customer (\$9.0 million), as well as costs associated with product withdrawals and recalls (\$2.8 million), and facility rationalization and severance costs primarily related to the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition (\$2.2 million). Other expenses in 2016 were partially offset by the \$1.7 million gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural. Other expense for the year ended January 2, 2016 of \$12.2 million included business development costs of \$7.8 million, primarily reflecting acquisition- and integration-related costs incurred in connection with the Sunrise Acquisition; as well as severance and other rationalization costs of \$2.9 million.

In 2016, we recognized a non-cash goodwill impairment charge of \$17.5 million related to the Sunflower reporting unit of the Global Ingredients segment, due to lower anticipated sales demand and higher expected production and capital costs as a result of the sunflower recall.

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The increase in interest expense of \$27.6 million to \$43.3 million for the year ended December 31, 2016, compared with \$15.7 million for the year ended January 2, 2016, primarily reflected increased costs associated with borrowings to finance the Sunrise Acquisition. Interest expense for 2016 included \$10.5 million of non-cash amortization and expense of the initial second lien loans used to partially fund the Sunrise Acquisition, compared with \$3.4 million in 2015.

We recognized a recovery of income tax of \$23.8 million for the year ended December 31, 2016 (including the realization of \$1.3 million of previously unrecognized tax benefits), compared with a recovery of income tax of \$3.4 million for the year ended January 2, 2016. Excluding the impact of the change in unrecognized tax benefits, the effective tax rate for 2016 was 39.6% of the loss before income taxes (excluding the non-deductible goodwill impairment loss), compared with 52.0% of loss before income taxes for 2015. The effective tax rates reflected the impact of changes in the jurisdictional mix of earnings, mainly as the result of pre-tax losses in the U.S. in 2016 and 2015, which reflected costs related to the Sunrise Acquisition (including financing-related costs and acquisition accounting adjustments to Sunrise inventory sold). In addition, for 2016, pre-tax losses in the U.S. reflected costs associated with the Value Creation Plan, settlement of the product recall dispute, and product withdrawal and recall costs.

Loss from continuing operations, net of non-controlling interests, for the year ended December 31, 2016 was \$50.6 million, compared with a loss of \$3.0 million for the year ended January 2, 2016, an increase of \$47.6 million. Diluted loss per share from continuing operations was \$0.61 for the year ended December 31, 2016, compared with diluted loss per share from continuing operations of \$0.04 for the year ended January 2, 2016.

Loss from discontinued operations of \$0.6 million for the year ended December 31, 2016 reflected the loss from operations of Opta Minerals of \$2.0 million, which included an asset impairment charge of \$1.2 million, partially offset by a \$0.6 million gain on classification as held for sale, net of recovery of income taxes and non-controlling interest of \$0.9 million. Loss from discontinued operations of \$19.5 million for the year ended January 2, 2016 primarily reflected the results of Opta Minerals, including an asset impairment charge of \$12.4 million and loss on classification as held for sale of \$10.5 million, net of non-controlling interest of \$8.8 million.

On a consolidated basis, we realized a loss of \$51.2 million (diluted loss per share of \$0.62) for the year ended December 31, 2016, compared with a loss of \$22.5 million (diluted loss per share of \$0.31) for the year ended January 2, 2016.

For the year ended December 31, 2016, adjusted earnings were \$5.8 million, or \$0.07 per diluted share, on a consolidated basis, compared with adjusted earnings of \$19.0 million, or \$0.26 per diluted share, on a consolidated basis for the year ended January 2, 2016. Excluding flexible resealable pouch and nutrition bar product lines and operations, adjusted earnings \$7.1 million, or \$0.08 per diluted share, for the year ended December 31, 2016, compared with adjusted earnings of \$19.7 million, or \$0.27 per diluted share, for the year ended January 2, 2016. Adjusted EBITDA for the year ended December 31, 2016 was \$81.7 million on a consolidated basis, compared with \$62.2 million on a consolidated basis for the year ended January 2, 2016. Excluding flexible resealable pouch and nutrition bar product lines and operations, adjusted EBITDA for the year ended December 31, 2016 was \$83.0 million, compared with \$62.7 million for the year ended January 2, 2016. Adjusted earnings and adjusted EBITDA are non-GAAP financial measures. See footnotes (2) and (3) to the table above for a reconciliation of adjusted earnings/loss and adjusted EBITDA from loss from continuing operations, which we consider to be the most directly comparable U.S. GAAP financial measure.

### **Segmented Operations Information**

| <b>Global Ingredients</b> | <b>December 31, 2016</b> | <b>January 2, 2016</b> | <b>Change</b> | <b>% Change</b> |
|---------------------------|--------------------------|------------------------|---------------|-----------------|
| Revenue                   | 574,295                  | 610,890                | (36,595)      | -6.0%           |

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|                    |        |        |         |       |
|--------------------|--------|--------|---------|-------|
| Gross Profit       | 64,374 | 66,461 | (2,087) | -3.1% |
| Gross Profit %     | 11.2%  | 10.9%  |         | 0.3%  |
| Operating Income   | 26,787 | 28,184 | (1,397) | -5.0% |
| Operating Income % | 4.7%   | 4.6%   |         | 0.1%  |

Global Ingredients contributed \$574.3 million in revenues for the year ended December 31, 2016, compared to \$610.9 million for the year ended January 2, 2016, a decrease of \$36.6 million or 6.0%. Excluding the estimated impact on revenues of the recall of certain sunflower kernel products and the impact of changes including foreign exchange rates and commodity-related pricing, Global Ingredients revenues decreased approximately 0.2%. The table below explains the decrease in revenue:

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| <b>Global Ingredients Revenue Changes</b>                                                                                                                                                                                                                                   |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Revenues for the year ended January 2, 2016                                                                                                                                                                                                                                 | \$610,890        |
| Lower volumes of specialty corn and soy driven by a reduction of contracted acres, as well as decreased volumes of organic feed, roasted and other ingredient products                                                                                                      | (36,551)         |
| Lower sunflower volumes attributed to downtime due to the impact of the recall in the second quarter of 2016, and lower throughput after restarting our roasting operations, combined with lower export volumes of in-shell sunflower due primarily to a strong U.S. dollar | (17,301)         |
| Decreased commodity pricing of specialty corn, soy, sunflower and organic feed                                                                                                                                                                                              | (14,651)         |
| Decreased commodity pricing for organic seeds and nuts, coffee, oils, sugar and quinoa                                                                                                                                                                                      | (13,458)         |
| Higher volumes of internationally sourced organic ingredients including cocoa, fruit, vegetables, coffee, seeds and nuts                                                                                                                                                    | 45,366           |
| Revenues for the year ended December 31, 2016                                                                                                                                                                                                                               | <b>\$574,295</b> |

Gross profit in Global Ingredients decreased by \$2.1 million to \$64.4 million for the year ended December 31, 2016 compared to \$66.5 million for the year ended January 2, 2016, and the gross profit percentage increased by 0.3% to 11.2%. The increase in gross profit as a percentage of revenue was primarily due to a favorable sales mix driven by higher margin international organic raw materials and improved mix in domestic raw materials as a result of a decline in acres contracted of low margin seed and grain varieties, mark-to-market gains on commodity futures contracts, and improved transloading operating efficiencies from the prior year, partially offset by the impact of the sunflower recall on operations and lower pricing spreads on non-GMO soy, corn and organic feed. The table below explains the decrease in gross profit:

| <b>Global Ingredients Gross Profit Changes</b>                                                                                                                                                                                                                     |                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
|                                                                                                                                                                                                                                                                    |                 |
| Gross profit for the year ended January 2, 2016                                                                                                                                                                                                                    | \$66,461        |
| Margin loss from downtime associated with the sunflower recall, and as reduced throughput following the restart of our roasting operations, as well as lower export volumes of in-shell sunflower due primarily to a strong U.S. dollar                            | (4,201)         |
| Lower pricing spread on specialty corn and soy, as well as inventory reserves and low margin sales recorded against certain grain varieties that we are exiting, partially offset by improved recoveries over the prior year related to transloading costs in 2015 | (2,881)         |
| Favorable margin impact of mark-to-market gains related to commodity futures contracts                                                                                                                                                                             | 2,707           |
| Favorable impact on gross margins due to improved pricing spreads on internationally sourced organic ingredients, partially offset by reduced yield and other operational inefficiencies at our European sunflower operations                                      | 2,288           |
| Gross profit for the year ended December 31, 2016                                                                                                                                                                                                                  | <b>\$64,374</b> |

Operating income in Global Ingredients decreased by \$1.4 million, or 5.0%, to \$26.8 million for the year ended December 31, 2016, compared to \$28.2 million for the year ended January 2, 2016. The table below explains the decrease in operating income:

| <b>Global Ingredients Operating Income Changes</b>              |                 |
|-----------------------------------------------------------------|-----------------|
| Operating income for the year ended January 2, 2016             | \$28,184        |
| Decrease in gross profit, as explained above                    | (2,087)         |
| Decreased foreign exchange gains on forward currency contracts  | (2,590)         |
| Decrease in corporate cost allocations                          | 2,573           |
| Lower professional fees and employee-related compensation costs | 707             |
| Operating income for the year ended December 31, 2016           | <b>\$26,787</b> |

| <b>Consumer Products</b> | <b>December 31, 2016</b> | <b>January 2, 2016</b> | <b>Change</b> | <b>% Change</b> |
|--------------------------|--------------------------|------------------------|---------------|-----------------|
|--------------------------|--------------------------|------------------------|---------------|-----------------|

|                |         |         |         |       |
|----------------|---------|---------|---------|-------|
| Revenue        | 772,436 | 534,244 | 238,192 | 44.6% |
| Gross Profit   | 61,578  | 43,901  | 17,677  | 40.3% |
| Gross Profit % | 8.0%    | 8.2%    |         | -0.2% |

|                    |       |       |         |        |
|--------------------|-------|-------|---------|--------|
| Operating Income   | 1,206 | 3,208 | (2,002) | -62.4% |
| Operating Income % | 0.2%  | 0.6%  |         | -0.4%  |

Consumer Products contributed \$772.4 million in revenues for the year ended December 31, 2016, compared to \$534.2 million for the year ended January 2, 2016, an increase of \$238.2 million or 44.6%. Excluding the impact of business acquisitions and associated product rationalizations, as well as the estimated impact on west coast pouch operations as a result of a fire at a third-party facility in the third quarter of 2016, Consumer Products revenues increased 1.6%. The table below explains the increase in revenue:

| <b>Consumer Products Revenue Changes</b>                                                                                                                                                                                                                                                                            |                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Revenues for the year ended January 2, 2016                                                                                                                                                                                                                                                                         | \$534,244        |
| Acquired revenues as a result of the acquisition of Sunrise, partially offset by the impact of customer transition following the closure of the Buena Park processing facility in the first quarter of 2016, as well as lower volumes in the foodservice and retail customer markets in the latter half of the year | 209,397          |
| Higher sales of aseptic beverages including retail almond beverages and non-dairy into the foodservice channel, along with stronger sales of shelf-stable juice as a result of new product innovation                                                                                                               | 28,682           |
| Acquired revenues as a result of the acquisition of Niagara Natural and increased volumes of flexible resealable pouch offerings as a result of new business contracted, partially offset by lower volumes of nutrition bars                                                                                        | 4,303            |
| Impact on revenues from closure of west coast pouch operations as a result of a fire at a third-party facility in the third quarter on 2016                                                                                                                                                                         | (4,190)          |
| Revenues for the year ended December 31, 2016                                                                                                                                                                                                                                                                       | <b>\$772,436</b> |

Gross profit in Consumer Products increased by \$17.7 million to \$61.6 million for the year ended December 31, 2016 compared to \$43.9 million for the year ended January 2, 2016, and the gross profit percentage decreased by 0.2% to 8.0%. For the year ended December 31, 2016, gross profit as a percentage of revenue was impacted by a \$15.0 million acquisition accounting adjustment related to Sunrise inventory sold, as well as costs associated with expansion activities at the Allentown aseptic beverage facility (\$1.6 million), and an inventory reserve for certain

consumer-packaged products due to quality-related issues (\$1.2 million). Excluding these costs, the gross profit percentage in Consumer Products would have been 10.3% for the year ended December 31, 2016. The increase in gross profit percentage on an adjusted basis reflected the higher margin profile of 2015 business acquisitions, and increased facility utilization and operating costs within the beverage operations, partially offset by higher costs within healthy fruit operations due to a delayed 2016 fruit harvest that led to increased labor costs and higher raw material prices that were not immediately built into customer pricing. The table below explains the increase in gross profit:

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| <b>Consumer Products Gross Profit Changes</b>                                                                                                                                                            |                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Gross profit for the year ended January 2, 2016                                                                                                                                                          | \$43,901        |
| Margin impact of the Sunrise Acquisition and improved pricing for frozen fruit offerings and for fruit bases and toppings                                                                                | 26,551          |
| Increased contribution from sales of aseptic and non-aseptic private label beverages, driven by increased production volumes and higher facility utilization                                             | 4,763           |
| Margin impact from acquisition accounting adjustment related to Sunrise inventory sold                                                                                                                   | (11,000)        |
| Lower volumes of fruit snacks and nutrition bars, partially offset by increased volumes of flexible resealable pouch offerings from our east coast pouch facility as a result of new business contracted | (2,637)         |
| Gross profit for the year ended December 31, 2016                                                                                                                                                        | <b>\$61,578</b> |

Operating income in Consumer Products decreased by \$2.0 million, or 62.4%, to \$1.2 million for the year ended December 31, 2016, compared to \$3.2 million for the year ended January 2, 2016. The table below explains the decrease in operating income:

| <b>Consumer Products Operating Income Changes</b>                                                                                                                                                                       |                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Operating income for the year ended January 2, 2016                                                                                                                                                                     | \$3,208        |
| Increase in gross profit, as explained above                                                                                                                                                                            | 17,677         |
| Increased SG&A costs due primarily to the acquisitions of Sunrise and Niagara Natural, and increased foreign exchange losses on international operations, partially offset by lower employee-related compensation costs | (14,418)       |
| Increase in corporate cost allocations, reflecting additional revenues and headcount related to the acquisitions of Sunrise, Citrusource and Niagara Natural                                                            | (5,261)        |
| Operating income for the year ended December 31, 2016                                                                                                                                                                   | <b>\$1,206</b> |

| <b>Corporate Services</b> | <b>December 31, 2016</b> | <b>January 2, 2016</b> | <b>Change</b> | <b>% Change</b> |
|---------------------------|--------------------------|------------------------|---------------|-----------------|
|---------------------------|--------------------------|------------------------|---------------|-----------------|

|                |          |          |         |        |
|----------------|----------|----------|---------|--------|
| Operating Loss | (13,247) | (10,094) | (3,153) | -31.2% |
|----------------|----------|----------|---------|--------|

Operating loss at Corporate Services increased by \$3.2 million to \$13.2 million for the year ended December 31, 2016, from a loss of \$10.1 million for the year ended January 2, 2016. The table below explains the increase in operating loss:

| <b>Corporate Services Operating Loss Changes</b>                                                                    |            |
|---------------------------------------------------------------------------------------------------------------------|------------|
| Operating loss for the year ended January 2, 2016                                                                   | \$(10,094) |
| Increased costs associated with strategic review and Value Creation Plan                                            | (4,041)    |
| Higher employee-related compensation costs due to increased headcount, stock-based compensation and health benefits | (1,603)    |
| Increase in non-compensation-related costs, offset by lower foreign exchange losses                                 | (197)      |
| Increase in corporate cost allocations, due in part to centralization of services                                   | 2,688      |

|                                                     |                   |
|-----------------------------------------------------|-------------------|
| Operating loss for the year ended December 31, 2016 | <b>\$(13,247)</b> |
|-----------------------------------------------------|-------------------|

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

## **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, including working capital efficiency efforts;

Cash flows generated from the exercise, if any, of stock options during the year;

Potential additional long-term financing, including the offer and sale of debt and/or equity securities; and

Potential sales of divisions, or assets.

On February 11, 2016, we entered a five-year credit agreement for the Global Credit Facility in the maximum aggregate principal amount of \$350 million, subject to borrowing base capacity. The Global Credit Facility supports the working capital and general corporate needs of our global operations, in addition to funding strategic initiatives. In addition, subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, we may request to increase the total lending commitments under this facility to a maximum aggregate principal amount not to exceed \$450 million. The applicable margin in the Global Credit Facility ranges from 1.25% to 1.75% for loans bearing interest based on LIBOR and from 0.25% to 0.75% for loans bearing interest based on the prime rate and, in each case, is set quarterly based on average borrowing availability for the preceding fiscal quarter.

On September 19, 2017, we entered into an amendment to the Global Credit Facility to add an additional U.S. asset-based credit subfacility (the New U.S. Subfacility) of an aggregate principal amount of \$15.0 million. The principal amount of New U.S. Subfacility is repayable in quarterly instalments of \$2.5 million, commencing with the fiscal quarter ending March 31, 2019. Borrowings repaid under the New U.S. Subfacility may not be borrowed again. The applicable margin for the New U.S. Subfacility ranges from 2.00% to 2.50% with respect to base rate and prime rate borrowings and from 3.00% to 3.50% for eurocurrency rate and bankers acceptance rate borrowings.

As at December 30, 2017, we had outstanding borrowings of \$230.5 million and approximately \$54 million of available borrowing capacity under the Global Credit Facility. For more information on the Global Credit Facility, see note 13(1) to the consolidated financial statements at Item 15 of this Form 10-K.

On October 20, 2016, SunOpta Foods issued \$231.0 million of 9.5% Senior Secured Second Lien Notes due October 9, 2022 (the Notes). The issuance of the Notes represented the culmination of the financing arrangements associated with the Sunrise Acquisition. As at December 30, 2017, the outstanding principal amount of the Notes was \$223.5 million, following the principal repayment of \$7.5 million in October 2017. For more information on the Notes, see note 13(3) to the consolidated financial statements at Item 15 of this Form 10-K.

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

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

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## Cash Flows

### *Fiscal 2017 Compared to Fiscal 2016*

Net cash and cash equivalents increased \$1.9 million to \$3.2 million as at December 30, 2017, compared with \$1.3 million at December 31, 2016, which primarily reflected the following uses of cash:

capital expenditures of \$41.1 million, mainly related to new capabilities within our aseptic beverage operations and expansion of our Dutch cocoa and Mexican frozen fruit facilities, as well as food safety and production enhancements across our manufacturing base;

repayment of \$7.5 million principal amount of outstanding Notes; and

payment of cash dividends on preferred stock of \$6.7 million.

These uses of cash were mostly offset by the following sources of cash:

cash provided by continuing operating activities of \$31.5 million; and

borrowings of \$22.2 million under our line of credit facilities.

Cash provided by operating activities of continuing operations was \$31.5 million for the year ended December 30, 2017, compared with cash provided of \$0.7 million for the year ended December 31, 2016, an increase in cash provided of \$30.7 million. The increase in cash provided by operating activities reflected cash generated through working capital efficiency initiatives during 2017, which were focused on lowering inventory positions, maximizing purchasing terms, and augmenting collection efforts for accounts receivable. These positive efforts were partially offset by the cash settlement of \$38.6 million of costs incurred under the Value Creation Plan in 2017, compared to \$3.1 million in 2016.

Cash used in investing activities of continuing operations was \$40.1 million for the year ended December 30, 2017, compared with cash used on \$21.6 million for the year ended December 31, 2016, an increase in cash used of \$18.5 million, which mainly reflected an increase in capital expenditures of \$18.6 million, partially reflecting the early buyout of equipment leases associated with the closure of the San Bernardino facility and exit from flexible resealable pouch operations (\$11.9 million).

Cash provided by financing activities of continuing operations was \$10.6 million for the year ended December 30, 2017, compared with cash provided of \$16.8 million for the year ended December 31, 2016, a decrease in cash provided of \$6.2 million. Net borrowings under our line of credit facilities increased \$22.2 million in 2017, compared with an increase of \$44.3 million in 2016, a period-over-period decrease in net borrowings under the line of credit facilities of \$22.1 million. This decrease in borrowings reflected the year-over-year reductions in working capital requirements (\$31.6 million) and debt issuance costs related to the Notes and Global Credit Facility (\$12.6 million), partially offset by the year-over-year increase in capital spending of \$18.6 million.

### *Fiscal 2016 Compared to Fiscal 2015*

Net cash and cash equivalents related to continuing operations decreased \$1.0 million to \$1.3 million as at December 31, 2016, compared with \$2.3 million at January 2, 2016, which primarily reflected the following uses of cash:

repayment of \$320.0 million second lien borrowings used to initially fund the Sunrise Acquisition;

capital expenditures of \$22.6 million, mainly related to the automation of frozen fruit processing and to food safety and quality initiatives in connection with the Value Creation Plan; and

payment of \$13.0 million of debt issuance costs related to the Notes and Global Credit Facility. These uses of cash were mostly offset by the following sources of cash:

proceeds of \$231.0 million and \$79.0 million on the issuance of the Notes and preferred stock, respectively, used to repay the second lien borrowings; and

net borrowings of \$44.3 million under our line of credit facilities.

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Cash provided by operating activities of continuing operations was \$0.7 million for the year ended December 31, 2016, compared with \$26.4 million for the year ended January 2, 2016, a decrease in cash provided of \$25.7 million, which reflected lower year-over-year operating performance in the fourth quarter of 2016, resulting in reduced inventory turnover, partially offset by the receipt of income tax refunds during 2016 related to 2015.

Cash used in investing activities of continuing operations was \$21.6 million for the year ended December 31, 2016, compared with cash used of \$521.6 million for the year ended January 2, 2016, a decrease in cash used of \$500.0 million, which mainly reflected total cash paid of \$490.7 million in connection with the Sunrise Acquisition, as well as upfront payments for Niagara Natural and Citrusource in 2015. In addition, capital expenditures declined year-over-year by \$8.6 million, reflecting higher spending in 2015 related to a retrofit of the San Bernardino juice facility and the expansion of the Allentown aseptic beverage facility. Cash provided by investing activities of discontinued operations in 2016 reflected cash proceeds from the sale of Opta Minerals of \$3.2 million, net of cash sold.

Cash provided by financing activities of continuing operations was \$16.8 million for the year ended December 31, 2016, compared with cash provided of \$490.0 million for the year ended January 2, 2016, a decrease in cash provided of \$473.2 million, which mainly reflected debt and equity issuances in connection with the Sunrise Acquisition in 2015 for proceeds of \$408.1 million in the aggregate, net of issuance costs. In addition, net borrowings under our line of credit facilities decreased \$41.7 million in 2016, compared with 2015, reflecting borrowings of \$79.2 million to finance a portion of the Sunrise Acquisition and upfront payments for Niagara Natural and Citrusource in 2015, partially offset by the payment of \$13.0 million of debt issuance costs incurred in 2016 in connection with the Notes and Global Credit Facility, and repayment of \$10.0 million of second line borrowings in 2016. In addition, we repaid the remaining \$310.0 million outstanding under the second lien borrowings with gross proceeds of \$231.0 million from the issuance of the Notes and net proceeds of \$79.0 million from the issuance of the preferred stock. In 2016, we also repaid in full outstanding borrowings of \$192.7 million under our former North American and European credit facilities with new borrowings under the Global Credit Facility.

## 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, results of operations, liquidity, capital expenditures or capital resources.

## Contractual Obligations

The table below sets out our contractual obligations as at December 30, 2017:

|                                                                 | Total     | 2018    | Payments due by Period |           | Thereafter |
|-----------------------------------------------------------------|-----------|---------|------------------------|-----------|------------|
|                                                                 | \$        | \$      | 2019-2020              | 2021-2022 | \$         |
|                                                                 |           |         | \$                     | \$        |            |
| Bank indebtedness <sup>(1)</sup>                                | 234,090   | 219,090 | 15,000                 | -         | -          |
| Long-term debt                                                  | 235,749   | 2,228   | 5,971                  | 225,523   | 2,027      |
| Interest on bank indebtedness and long-term debt <sup>(2)</sup> | 113,873   | 29,073  | 42,720                 | 41,502    | 578        |
| Purchase commitments                                            | 346,500   | 346,500 | -                      | -         | -          |
| Operating leases                                                | 71,899    | 19,048  | 29,070                 | 15,913    | 7,868      |
| Long-term liabilities                                           | 13,652    | 5,300   | 8,352                  | -         | -          |
| Commodity and foreign exchange contracts                        | 1,001     | 997     | 4                      | -         | -          |
|                                                                 | 1,016,764 | 622,236 | 101,117                | 282,938   | 10,473     |

(1)

Includes borrowings of \$215.5 million under the revolving facilities of the Global Credit Facility that have terms of six months or less. Outstanding borrowings under these revolving facilities are repayable in full on February 10, 2021. Also includes borrowings of \$15.0 million under the New U.S. Subfacility that are repayable in quarterly instalments of \$2.5 million beginning March 31, 2019.

- (2) Interest on bank indebtedness is calculated based on scheduled repayments over the periods as indicated, using existing interest rates at December 30, 2017, as disclosed in note 13 to the consolidated financial statements included in Item 15 of this Form 10-K.

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## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

### **Interest rate risk**

Variable and fixed rate borrowings carry different types of interest rate risk. Variable rate debt gives less predictability to earnings and cash flows as interest rates change, while the fair value of fixed rate debt is affected by changes in interest rates. As at December 30, 2017, we had \$234.1 million and \$228.0 million principal amount of variable and fixed rate debt, respectively, with weighted-average interest rates of 3.4% and 9.2%, respectively. A 100 basis-point change in interest rates would have a pre-tax effect of \$2.3 million on our earnings and cash flows, based on current outstanding borrowings and effective interest rates on our variable rate debt. While our variable-rate debt may impact earnings and cash flows as interest rates change, it is not subject to changes in fair value.

As at December 30, 2017, most of our fixed rate debt was comprised of the Notes. If interest rates were to increase or decrease by 100 basis-points, the fair value of the Notes would increase or decrease by approximately \$8.0 million.

### **Foreign currency risk**

All of our U.S. subsidiaries use the U.S. dollar as their functional currency, and the U.S. dollar is also our reporting currency. In addition, the functional currency of our Canadian and Mexican operations is the U.S. dollar. The functional currency of our operations located in Europe are principally the euro. For these operations, gains or losses on translation of net assets to U.S. dollars on consolidation are recorded in accumulated other comprehensive loss within shareholders' equity. We are exposed to foreign exchange rate fluctuations as the financial results of our European subsidiaries are translated into U.S. dollars on consolidation. A 10% change in the exchange rates for the euro, relative to the U.S. dollar, would affect the carrying value of our net assets by approximately \$7.1 million, with a corresponding impact to accumulated other comprehensive loss.

The euro appreciated against the U.S. dollar during 2017, with closing rates moving from \$1.0553 at December 31, 2016 to \$1.1998 at December 30, 2017. In 2017, the Canadian dollar also appreciated relative to the U.S. dollar, with closing rates moving from \$0.7448 at December 31, 2016 to \$0.7971 at December 30, 2017.

Our operations based in the U.S. have limited exposure to other currencies since almost all sales and purchases are made in U.S. dollars. The European operations are exposed to various currencies as they purchase product from a wide variety of countries in several currencies and primarily sell into the European market. It is our intention to hold excess funds in the currency in which the funds are likely to be used, which will from time to time potentially expose us to exchange rate fluctuations when converted into U.S. dollars. In addition, we enter into forward foreign exchange contracts to reduce exposure to fluctuations in foreign currency exchange rates. Open forward foreign exchange contracts were marked-to-market at December 30, 2017, resulting in a loss of \$2.4 million (December 31, 2016 gain of \$1.0 million), which is included in foreign exchange on the consolidated statements of operations, and a loss of \$0.4 million included in other comprehensive loss.

### **Commodity risk**

We enter into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain and certain other commodity transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to our assessment of our exposure from expected price fluctuations. Exchange purchase and sales contracts may expose us to risk in the event that the counterparty to a transaction is unable to fulfill its contractual obligation. We manage our risk by entering into purchase contracts with pre-approved growers.

We have a risk of loss from hedging activities if a grower does not deliver as scheduled. Sales contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures transactions are marked to market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold. As at December 30, 2017, we owned 280,558 (December 31, 2016 354,699) bushels of corn with a weighted-average price of \$3.55 (December 31, 2016 \$3.17) and 254,022 (December 31, 2016 569,943) bushels of soybeans with a weighted-average price of \$9.68 (December 31, 2016 \$10.74). As at December 30, 2017, we had a net long position on corn of 10,425 (December 31, 2016 net short position of 10,937) bushels and a net short position on soybeans of 9,354 (December 31, 2016 net short position of 43,866). An increase or decrease in commodity prices of either soy or corn of 10% would not result in a material change in the carrying value of these commodities.

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In addition, we enter into forward contracts to hedge our cocoa and coffee positions in an effort to minimize price fluctuations. As at December 30, 2017, we had net open forward contracts to sell 299 lots of cocoa (December 31, 2016 142 lots) and 3 lots of coffee (December 31, 2016 21 lots). A 10% change in the commodity price of cocoa and coffee would impact the fair value of these derivative instruments by \$0.1 million (December 31, 2016 \$0.3 million).

**Item 8. Financial Statements and Supplementary Data**

The consolidated financial statements required by this item are set forth immediately following the signature page to this Form 10-K beginning on page F-1 and are incorporated herein by reference.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

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## **Item 9A - 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 annual 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 December 30, 2017.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control framework and processes are designed to provide reasonable assurance to management and our board of directors regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Because of these inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 30, 2017. In making this assessment, management used the criteria set forth by the Committee on Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013).

Based on its assessment, our management concluded that our internal control over financial reporting was effective as of December 30, 2017, based on those criteria.

The effectiveness of our internal control over financial reporting as of December 30, 2017 has been audited by Deloitte LLP, Independent Registered Public Accounting Firm, that also audited our consolidated financial statements for the year ended December 30, 2017, as stated in their reports which appear herein.

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

There were no changes in our internal control over financial reporting during the quarter ended December 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of SunOpta Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of SunOpta Inc. and subsidiaries (the Company) as of December 30, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 30, 2017, of the Company and our report dated February 28, 2018, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*/s/ Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Canada  
February 28, 2018

**Item 9B. Other Information**

None.

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### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required under this item is incorporated herein by reference to our Definitive Proxy Statement for the Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission not later than 120 days after December 30, 2017 (the 2018 Proxy Statement ).

#### **Item 11. Executive Compensation**

The information required under this item is incorporated herein by reference from the 2018 Proxy Statement.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required under this item is incorporated herein by reference from the 2018 Proxy Statement.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required under this item is incorporated herein by reference from the 2018 Proxy Statement.

#### **Item 14. Principal Accounting Fees and Services**

The information required under this item is incorporated herein by reference from the 2018 Proxy Statement.

### **PART IV**

#### **Item 15. Exhibits and Financial Statement Schedules**

The following documents are being filed as part of this annual report.

1. Financial Statements. See Index to Consolidated Financial Statements set forth on page F1.
2. Financial Statement Schedules. All schedules for which provision is made in the applicable accounting requirements of the Securities and Exchange Commission are not required or the required information has been included within the financial statements or the notes thereto.
3. Exhibits. The list of exhibits in the Exhibit Index included in this annual report is incorporated herein by reference.

#### **EXHIBIT INDEX**

| <b><u>Exhibits</u></b> | <b><u>Description</u></b> |
|------------------------|---------------------------|
|------------------------|---------------------------|

|             |                                                                                                                                                                                                                                                                    |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>2.1+</u> | <u>Asset Purchase Agreement, dated August 11, 2015, among SunOpta Inc., Niagara Natural Fruit Snack Company Inc., John Boot and Guy Armstrong (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 17, 2015).</u> |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|            |                                                                                                                                                                                                                                                    |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>3.1</u> | <u>Amalgamation of Stake Technology Ltd. and 3754481 Canada Ltd. (formerly George F. Pettinos (Canada) Limited) (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000).</u> |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|            |  |
|------------|--|
| <u>3.2</u> |  |
|------------|--|

Certificate of Amendment, dated October 31, 2003, to change the Company's name from Stake Technology Ltd. to SunOpta Inc. (incorporated by reference to Exhibit 3i(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

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**Exhibits Description**

|             |                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>3.3</u>  | <u>Articles of Amalgamation of SunOpta Inc. and Sunrich Valley Inc., Integrated Drying Systems Inc., Kettle Valley Dried Fruits Ltd., Pro Organics Marketing Inc., Pro Organics Marketing (East) Inc., 4157648 Canada Inc. and 4198000 Canada Ltd., dated January 1, 2004 (incorporated by reference to Exhibit 3i(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).</u> |
| <u>3.4</u>  | <u>Articles of Amalgamation of SunOpta Inc. and 6319734 Canada Inc., 4157656 Canada Inc. Kofman-Barenholtz Foods Limited, dated January 1, 2005 (incorporated by reference to Exhibit 3i(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).</u>                                                                                                                           |
| <u>3.5</u>  | <u>Articles of Amalgamation of SunOpta Inc. and 4307623 Canada Inc., dated January 1, 2006 (incorporated by reference to Exhibit 3i(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).</u>                                                                                                                                                                                |
| <u>3.6</u>  | <u>Articles of Amalgamation of SunOpta Inc., 4208862 SunOpta Food Ingredients Canada Ltd., 4406150 Canada Inc. and 4406168 Canada Inc., dated January 1, 2007 (incorporated by reference to Exhibit 3i(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).</u>                                                                                                             |
| <u>3.7</u>  | <u>Articles of Amalgamation of SunOpta Inc. and 4460596 Canada Inc., dated January 1, 2008 (incorporated by reference to Exhibit 3i(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).</u>                                                                                                                                                                                |
| <u>3.8</u>  | <u>Amended and Restated By-law No. 14, dated May 27, 2010 (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3 filed on July 3, 2014).</u>                                                                                                                                                                                                                          |
| <u>3.9</u>  | <u>Certificate of Amendment, dated July 10, 2013, to authorize the directors to fix the number of directors to be elected by the shareholders and to appoint one or more directors (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed on July 3, 2014).</u>                                                                                                 |
| <u>3.10</u> | <u>By-Law Number 15 of SunOpta Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 13, 2015).</u>                                                                                                                                                                                                                                                   |
| <u>4.1</u>  | <u>Form of Certificate representing Common Shares, no par value (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 filed on September 2, 2011).</u>                                                                                                                                                                                                               |
| <u>4.2</u>  | <u>Shareholder Rights Plan Agreement, dated November 10, 2015, between SunOpta Inc. and American Stock Transfer &amp; Trust Company LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 13, 2015).</u>                                                                                                                              |
| <u>4.3</u>  | <u>Amended and Restated Shareholder Rights Plan Agreement, dated November 10, 2015, amended and restated as of April 18, 2016, between SunOpta Inc. and American Stock Transfer &amp; Trust Company LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 20, 2016).</u>                                                                 |
| <u>4.4</u>  | <u>Amended and Restated Certificate of Incorporation of SunOpta Foods Inc., setting forth the terms of its Series A Preferred Stock, which is exchangeable for Common Shares of SunOpta Inc. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 12, 2016).</u>                                                                                           |
| <u>4.5</u>  |                                                                                                                                                                                                                                                                                                                                                                                                              |

Articles of Amendment of SunOpta Inc., setting forth the terms of its Special Shares, Series 1 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 12, 2016).

4.6 Indenture, dated as of October 20, 2016, among SunOpta Foods, the guarantors named therein and U.S. Bank National Association, as trustee and notes collateral agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 26, 2016).

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**Exhibits Description**

|             |                                                                                                                                                                                                                                                                                                                                                                      |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>4.7</u>  | <u>Form of 9.5% Senior Secured Second Lien Notes due 2022 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 26, 2016).</u>                                                                                                                                                                                      |
| <u>4.8</u>  | <u>Second Lien U.S. Security Agreement, dated as of October 20, 2016, among the grantors referred therein and the Notes Collateral Agent (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on October 26, 2016).</u>                                                                                                       |
| <u>4.9</u>  | <u>Second Lien Canadian Security Agreement, dated as of October 20, 2016, among the grantors referred therein and the Notes Collateral Agent (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on October 26, 2016).</u>                                                                                                   |
| <u>4.10</u> | <u>Amended and Restated Intercreditor Agreement, dated as of October 20, 2016, among Bank of America, N.A. as first lien collateral agent, the Notes Collateral Agent and the grantors referred therein (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on October 26, 2016).</u>                                        |
| <u>10.1</u> | <u>Employee Stock Purchase Plan amended March 4, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 29, 2012).</u>                                                                                                                                                                              |
| <u>10.2</u> | <u>Retiring Allowance Agreement, dated March 8, 2011, between the Company and Jeremy Kendall which terminates and supersedes the Employment Agreement dated October 1, 2001 between the Company and Mr. Jeremy Kendall, as amended (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).</u> |
| <u>10.3</u> | <u>SunOpta Inc. 2002 Stock Option Plan, Amended and Restated May 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 24, 2011).</u>                                                                                                                                                                             |
| <u>10.4</u> | <u>Letter Agreement, dated October 10, 2011, by and between SunOpta Inc. and Robert McKeracher (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2011).</u>                                                                                                                                 |
| <u>10.5</u> | <u>Stock Deferral Plan for Non-Employee Directors dated August 12, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 5, 2014).</u>                                                                                                                                                           |
| <u>10.6</u> | <u>Letter Agreement re Terms of Employment, dated October 10, 2011, by and between SunOpta Inc. and John Ruelle (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended January 3, 2015).</u>                                                                                                                     |
| <u>10.7</u> | <u>Letter Agreement re Amendment of Terms of Employment, dated April 5, 2013, by and between SunOpta Inc. and John Ruelle (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended January 3, 2015).</u>                                                                                                           |
| <u>10.8</u> | <u>Letter Agreement re Amendment of Terms of Employment, dated December 30, 2014, by and between SunOpta Inc. and John Ruelle (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended January 3, 2015).</u>                                                                                                       |
| <u>10.9</u> | <u>Employment Agreement, dated April 2012, by and between The Organic Corporation B.V. and G.J.M. Versteegh (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for</u>                                                                                                                                                          |

the year ended January 3, 2015).

- 10.10 Separation Agreement, dated July 6, 2015, between SunOpta Inc. and Steven Bromley (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 7, 2015).
- 10.11 Commitment Letter dated July 30, 2015, among SunOpta Inc., SunOpta Foods Inc., Bank of Montreal and BMO Capital Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 3, 2015).

SUNOPTA INC.

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December 30, 2017 10-K

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**Exhibits Description**

|               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.12+</u> | <u>1Second Lien Loan Agreement, dated October 9, 2015, among SunOpta Inc., as Holdings, SunOpta Foods Inc., as the Borrower, Certain Subsidiaries of SunOpta Inc., as Subsidiary Guarantors and Loan Parties, the Several Lenders from Time to Time Parties Hereto, Bank of Montreal, as Administrative Agent and Collateral Agent, BMO Capital Markets Corp. and CoÖperatieve Centrale Raiffeisen- Boerenleenbank B.A., Rabobank Nederland , New York Branch, as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.5 to the Company s Quarterly Report on Form 10- Q for the quarter ended October 3, 2015).</u> |
| <u>10.13+</u> | <u>Credit Agreement, dated as of February 11, 2016, among SunOpta Inc., SunOpta Foods Inc., The Organic Corporation B.V., the other borrowers and guarantors party thereto, the lenders party thereto, Bank of America, N.A., as U.S. Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), as Canadian Administrative Agent, Bank of America, N.A. (acting through its London Branch), as Dutch Administrative Agent, and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 17, 2016).</u>                             |
| <u>10.14</u>  | <u>Support Agreement dated February 12, 2016, among SunOpta Inc., Wedge Acquisition Inc. and Wedge Acquisition Holdings Inc. (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 18, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                |
| <u>10.15</u>  | <u>Second Amending Agreement, dated October 9, 2015, amending the Seventh Amended and Restated Credit Agreement, among SunOpta Inc. and SunOpta Foods, as Borrowers, Each of the Financial Institutions and Other Entities from Time to Time Parties Thereto, as Lenders, Certain Affiliates of the Borrowers, as Obligors, and Bank of Montreal, as Agent (incorporated by reference to Exhibit 10.19 to the Company s Annual Report on Form 10-K for the year ended January 2, 2016).</u>                                                                                                                                                         |
| <u>10.16</u>  | <u>Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit C to the Company s Definitive Proxy Statement on Schedule 14A filed on March 31, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <u>10.17</u>  | <u>Form of Incentive Stock Option Award Agreement under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <u>10.18</u>  | <u>Form of Restricted Stock Unit Award Agreement (Non-Employee Directors) under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                |
| <u>10.19</u>  | <u>Form of 2016 Performance Share Unit Award Agreement under 2013 Amended Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <u>10.20</u>  | <u>Employment Agreement, dated August 18, 2016, by and between SunOpta Inc. and Jill E. Barnett (incorporated by reference to Exhibit 10.6 to the Company s Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                               |
| <u>10.21</u>  | <u>Employment Agreement, dated August 18, 2016, by and between SunOpta Inc. and James P. Gratzek (incorporated by reference to Exhibit 10.7 to the Company s Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                              |

10.22      Employment Agreement Amendment, dated August 19, 2016, by and between The Organic Corporation B.V. and G.J.M. Versteegh (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).

SUNOPTA INC.

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**Exhibits Description**

|       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.23 | <u>First Amendment, dated as of October 7, 2016, to the Credit Agreement, dated as of February 11, 2016, among SunOpta Inc., SunOpta Foods Inc., The Organic Corporation B.V., each of the other borrowers and guarantors party thereto from time to time, the lenders party thereto from time to time, Bank of America, N.A., as U.S. Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), as Canadian Administrative Agent, Bank of America, N.A. (acting through its London Branch), as Dutch Administrative Agent under the Dutch, and Bank of America, N.A. as Collateral Agent (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).</u> |
| 10.24 | <u>First Amendment, dated as of October 7, 2016, to the Second Lien Loan Agreement, dated as of October 9, 2015, among SunOpta Inc., SunOpta Foods Inc., certain subsidiaries of SunOpta Inc., the several banks and other financial institutions or entities from time to time party thereto, and Bank of Montreal, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2016).</u>                                                                                                                                                                                                                                               |
| 10.25 | <u>Subscription Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc. and Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 12, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 10.26 | <u>Investor Rights Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc. and Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 12, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 10.27 | <u>Exchange and Support Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc., Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. and any person that becomes a Holder of Preferred Stock, from time to time (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 12, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                           |
| 10.28 | <u>Voting Trust Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc., the trustee named therein, Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. and any other Holder of Preferred Stock, from time to time (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 12, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                        |
| 10.29 | <u>Letter Agreement, dated November 8, 2016, between Hendrik Jacobs and SunOpta Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 15, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 10.30 | <u>Letter Agreement, dated November 8, 2016, between Robert McKeracher and SunOpta Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 15, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 10.31 | <u>Letter Agreement, dated November 8, 2016, between John Ruelle and SunOpta Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 15, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 10.32 | <u>Letter Agreement, dated November 8, 2016, between Gerard Versteegh and SunOpta Inc. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on November 15, 2016).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.33 | <u>Employment Agreement, effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

10.34      Restricted Stock Award Agreement, dated effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 7, 2017).

**SUNOPTA INC.**

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December 30, 2017 10-K

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**Exhibits Description**

|              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.35</u> | <u>Stock Option Award Agreement, dated effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 7, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <u>10.36</u> | <u>Performance Share Unit Award Agreement, dated effective February 6, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on February 7, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <u>10.37</u> | <u>Second Amendment and Joinder, dated September 19, 2017, to the Credit Agreement, dated as of February 11, 2016, among SunOpta Inc., SunOpta Foods Inc., The Organic Corporation B.V., the other borrowers and guarantors party thereto, the lenders party thereto, Bank of America, N.A., as U.S. Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), as Canadian Administrative Agent, Bank of America, N.A. (acting through its London Branch), as Dutch Administrative Agent, and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 22, 2017).</u> |
| <u>10.38</u> | <u>Separation Agreement and Full and Final Release between SunOpta Inc. and Edward Haft (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 28, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <u>10.39</u> | <u>Consent to Purchase Shares, dated May 6, 2017, between SunOpta Inc. and Oaktree Organics, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 8, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                              |
| <u>10.40</u> | <u>Amendment Agreement, dated May 6, 2017, between SunOpta Inc., Oaktree Organics, L.P., Oaktree Huntington Investment Fund II, L.P., SunOpta Foods Inc. and OCM SunOpta Trustee, LLC. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 8, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                |
| <u>10.41</u> | <u>Restricted Stock Award Agreement, dated effective March 9, 2017, between SunOpta Inc. and David J. Colo (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 13, 2017, as amended).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <u>10.42</u> | <u>Separation Agreement, dated March 3, 2017, by and between SunOpta Inc. and Michelle Coleman (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 1, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <u>10.43</u> | <u>Employment Agreement, dated March 13, 2017, by and between SunOpta Inc. and Robert Duchscher (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 1, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <u>10.44</u> | <u>Employment Agreement, dated April 1, 2017, by and between SunOpta Inc. and Jeffrey Gough (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended April 1, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <u>10.45</u> | <u>Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 13, 2017).</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <u>10.46</u> | <u>Form of 2017 Incentive Stock Option Award Agreement under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

quarterly period ended July 1, 2017).

10.47 Form of 2017 Restricted Stock Unit Award Agreement under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2017).

SUNOPTA INC.

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**Exhibits**   **Description**

|                 |                                                                                                                                                                                                                                                                     |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.48</u>    | <u>Form of 2017 Performance Share Unit Award Agreement under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2017).</u>                         |
| <u>10.49</u>    | <u>Employment Agreement, effective January 23, 2017, by and between SunOpta Inc. and Patrick McCoy (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 30, 2017, filed on March 1, 2018).</u>       |
| <u>10.50</u>    | <u>Employment Agreement, effective February 21, 2017, by and between SunOpta Inc. and Michael J. Buick (incorporated by reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K for the year ended December 30, 2017, filed on March 1, 2018).</u>   |
| <u>10.51</u>    | <u>Employment Agreement, effective March 6, 2017, by and between SunOpta Inc. and Robert S. Grant (incorporated by reference to Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 30, 2017, filed on March 1, 2018).</u>        |
| <u>10.52</u>    | <u>Employment Agreement, effective April 10, 2017, by and between SunOpta Inc. and Christopher Whitehair (incorporated by reference to Exhibit 10.52 to the Company's Annual Report on Form 10-K for the year ended December 30, 2017, filed on March 1, 2018).</u> |
| <u>10.53</u>    | <u>Employment Agreement, effective November 1, 2017, by and between SunOpta Inc. and George Miketa (incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 30, 2017, filed on March 1, 2018).</u>       |
| <u>21</u>       | <u>List of subsidiaries (incorporated by reference to Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 30, 2017, filed on March 1, 2018).</u>                                                                                     |
| <u>23.1</u>     | <u>Consent of Deloitte LLP, Independent Registered Public Accounting Firm (incorporated by reference to Exhibit 23.1 to the Company's Annual Report on Form 10-K for the year ended December 30, 2017, filed on March 1, 2018).</u>                                 |
| <u>31.1*</u>    | <u>Certification by David Colo, President and Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.</u>                                                                                                        |
| <u>31.2*</u>    | <u>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.</u>                                                                                            |
| <u>32*</u>      | <u>Certifications by David Colo, President and Chief Executive Officer, and Robert McKeracher, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.</u>                                                                                  |
| <u>101.INS*</u> | <u>XBRL Instance Document</u>                                                                                                                                                                                                                                       |
| <u>101.SCH*</u> | <u>XBRL Taxonomy Extension Schema Document</u>                                                                                                                                                                                                                      |
| <u>101.CAL*</u> | <u>XBRL Taxonomy Extension Calculation Linkbase Document</u>                                                                                                                                                                                                        |
| <u>101.DEF*</u> | <u>XBRL Taxonomy Extension Definition Linkbase Document</u>                                                                                                                                                                                                         |

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

- + Exhibits and schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. SunOpta will furnish copies of the omitted exhibits and schedules to the Securities and Exchange Commission upon its request.

Indicates management contract or compensatory plan or arrangement.

- \* Filed herewith.

**SUNOPTA INC.**

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

/s/ Robert McKeracher

Robert McKeracher Vice President and Chief Financial Officer

Date: March 7, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                                        | <b>Title</b>                                                                            | <b>Date</b>   |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------|---------------|
| <u>/s/ David Colo</u><br>David Colo                     | President, Chief Executive Officer and Director (Principal Executive Officer)           | March 7, 2018 |
| <u>/s/ Robert McKeracher</u><br>Robert McKeracher       | Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | March 7, 2018 |
| <u>/s/ Dean Hollis</u><br>Dean Hollis                   | Chair of the Board and Director                                                         | March 7, 2018 |
| <u>/s/ Margaret Shan Atkins</u><br>Margaret Shan Atkins | Director                                                                                | March 7, 2018 |
| <u>/s/ Al Bolles</u><br>Al Bolles                       | Director                                                                                | March 7, 2018 |
| <u>/s/ Derek Briffett</u><br>Derek Briffett             | Director                                                                                | March 7, 2018 |
| <u>/s/ Michael Detlefsen</u><br>Michael Detlefsen       | Director                                                                                | March 7, 2018 |
| <u>/s/ Katrina Houde</u><br>Katrina Houde               | Director                                                                                | March 7, 2018 |
| <u>/s/ Brendan Springstubb</u><br>Brendan Springstubb   | Director                                                                                | March 7, 2018 |
| <u>/s/ Gregg Tanner</u><br>Gregg Tanner                 | Director                                                                                | March 7, 2018 |

**Item 16. Form 10-K Summary**

The Company has chosen not to include an optional summary of the information required by this Form 10-K. For a reference to information in the Form 10-K, investors should refer to the Table of Contents to this Form 10-K.



**SunOpta Inc.**

**Index to Consolidated Financial Statements**

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| Report of Independent Registered Public Accounting Firm                                                                                | F2                 |
| Consolidated Statements of Operations For the years ended December 30, 2017, December 31, 2016 and January 2, 2016                     | F3                 |
| Consolidated Statements of Comprehensive Loss For the years ended December 30, 2017, December 31, 2016 and January 2, 2016             | F4                 |
| Consolidated Balance Sheets As at December 30, 2017 and December 31, 2016                                                              | F5                 |
| Consolidated Statements of Shareholders' Equity As at and for the years ended December 30, 2017, December 31, 2016 and January 2, 2016 | F6                 |
| Consolidated Statements of Cash Flows For the years ended December 30, 2017, December 31, 2016 and January 2, 2016                     | F7                 |
| Notes to Consolidated Financial Statements For the years ended December 30, 2017, December 31, 2016 and January 2, 2016                | F9                 |

**SUNOPTA INC.**

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December 30, 2017 10-K

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of SunOpta Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of SunOpta Inc. and subsidiaries (the Company) as of December 30, 2017 and December 31, 2016, the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows, for each of the three years in the period ended December 30, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**/s/ Deloitte LLP**

Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Canada  
February 28, 2018

We have served as the Company's auditor since 2008.

**SUNOPTA INC.**

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December 30, 2017 10-K

**SunOpta Inc.**

## Consolidated Statements of Operations

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

|                                                                             | December 30, 2017<br>\$ | December 31, 2016<br>\$ | January 2, 2016<br>\$ |
|-----------------------------------------------------------------------------|-------------------------|-------------------------|-----------------------|
| <b>Revenues</b>                                                             | 1,279,593               | 1,346,731               | 1,145,134             |
| <b>Cost of goods sold</b>                                                   | 1,134,506               | 1,220,779               | 1,034,772             |
| <b>Gross profit</b>                                                         | 145,087                 | 125,952                 | 110,362               |
| Selling, general and administrative expenses                                | 127,507                 | 98,681                  | 85,754                |
| Intangible asset amortization                                               | 11,195                  | 11,282                  | 4,951                 |
| Other expense, net (note 18)                                                | 23,660                  | 28,292                  | 12,151                |
| Goodwill impairment (note 11)                                               | 115,000                 | 17,540                  | -                     |
| Foreign exchange loss (gain)                                                | 5,618                   | 1,243                   | (1,641)               |
| <b>Earnings (loss) from continuing operations before the following</b>      | (137,893)               | (31,086)                | 9,147                 |
| Interest expense, net (note 13)                                             | 32,504                  | 43,275                  | 15,669                |
| <b>Loss from continuing operations before income taxes</b>                  | (170,397)               | (74,361)                | (6,522)               |
| Recovery of income taxes (note 19)                                          | (35,829)                | (23,797)                | (3,390)               |
| <b>Loss from continuing operations</b>                                      | (134,568)               | (50,564)                | (3,132)               |
| <b>Discontinued operations (note 5)</b>                                     |                         |                         |                       |
| Loss from discontinued operations                                           | -                       | (1,993)                 | (17,377)              |
| Gain (loss) on classification as held for sale                              | -                       | 560                     | (10,515)              |
| Recovery of (provision for) income taxes                                    | -                       | 599                     | (402)                 |
| Loss from discontinued operations attributable to non-controlling interests | -                       | 264                     | 8,819                 |
| Loss from discontinued operations attributable to SunOpta Inc.              | -                       | (570)                   | (19,475)              |
| <b>Loss</b>                                                                 | (134,568)               | (51,134)                | (22,607)              |
| Earnings (loss) attributable to non-controlling interests                   | 752                     | 54                      | (136)                 |
| <b>Loss attributable to SunOpta Inc.</b>                                    | (135,320)               | (51,188)                | (22,471)              |
| <b>Loss per share basic (note 20)</b>                                       |                         |                         |                       |
| -from continuing operations                                                 | (1.66)                  | (0.61)                  | (0.04)                |
| -from discontinued operations                                               | -                       | (0.01)                  | (0.27)                |

|                                            |        |        |        |
|--------------------------------------------|--------|--------|--------|
|                                            | (1.66) | (0.62) | (0.31) |
| <b>Loss per share    diluted</b> (note 20) |        |        |        |
| -from continuing operations                | (1.66) | (0.61) | (0.04) |
| -from discontinued operations              | -      | (0.01) | (0.27) |
|                                            | (1.66) | (0.62) | (0.31) |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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December 30, 2017 10-K

**SunOpta Inc.**

## Consolidated Statements of Comprehensive Loss

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

|                                                                         | December 30, 2017<br>\$ | December 31, 2016<br>\$ | January 2, 2016<br>\$ |
|-------------------------------------------------------------------------|-------------------------|-------------------------|-----------------------|
| <b>Loss from continuing operations</b>                                  | (134,568)               | (50,564)                | (3,132)               |
| Loss from discontinued operations attributable to SunOpta Inc.          | -                       | (570)                   | (19,475)              |
| <b>Loss</b>                                                             | (134,568)               | (51,134)                | (22,607)              |
| <b>Other comprehensive earnings (loss), net of income taxes</b>         |                         |                         |                       |
| Changes related to cash flow hedges (note 7)                            |                         |                         |                       |
| Unrealized gain (loss), net                                             | 1,263                   | -                       | (129)                 |
| Reclassification of loss (gain) to earnings                             | (1,568)                 | -                       | 339                   |
| Net changes related to cash flow hedges                                 | (305)                   | -                       | 210                   |
| Currency translation adjustment                                         | 6,184                   | (2,042)                 | (5,155)               |
| Other comprehensive earnings (loss), net of income taxes                | 5,879                   | (2,042)                 | (4,945)               |
| <b>Comprehensive loss</b>                                               | (128,689)               | (53,176)                | (27,552)              |
| Comprehensive earnings (loss) attributable to non-controlling interests | 713                     | (355)                   | (9,565)               |
| <b>Comprehensive loss attributable to SunOpta Inc.</b>                  | (129,402)               | (52,821)                | (17,987)              |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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December 30, 2017 10-K

**SunOpta Inc.**

## Consolidated Balance Sheets

As at December 30, 2017 and December 31, 2016

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

|                                                                                                                                  | December 30, 2017 | December 31, 2016 |
|----------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                                                                  | \$                | \$                |
| <b>ASSETS</b>                                                                                                                    |                   |                   |
| <b>Current assets</b>                                                                                                            |                   |                   |
| Cash and cash equivalents                                                                                                        | 3,228             | 1,251             |
| Accounts receivable (note 8)                                                                                                     | 125,152           | 157,369           |
| Inventories (note 9)                                                                                                             | 354,978           | 368,482           |
| Prepaid expenses and other current assets                                                                                        | 33,213            | 19,794            |
| Current income taxes recoverable                                                                                                 | 12,006            | 2,801             |
| <b>Total current assets</b>                                                                                                      | <b>528,577</b>    | <b>549,697</b>    |
| <b>Property, plant and equipment</b> (note 10)                                                                                   | <b>163,624</b>    | <b>162,239</b>    |
| <b>Goodwill</b> (note 11)                                                                                                        | <b>109,533</b>    | <b>223,611</b>    |
| <b>Intangible assets</b> (note 11)                                                                                               | <b>172,059</b>    | <b>183,524</b>    |
| <b>Deferred income taxes</b> (note 19)                                                                                           | <b>363</b>        | <b>1,045</b>      |
| <b>Other assets</b>                                                                                                              | <b>8,017</b>      | <b>9,442</b>      |
| <b>Total assets</b>                                                                                                              | <b>982,173</b>    | <b>1,129,558</b>  |
| <b>LIABILITIES</b>                                                                                                               |                   |                   |
| <b>Current liabilities</b>                                                                                                       |                   |                   |
| Bank indebtedness (note 13)                                                                                                      | 234,090           | 201,494           |
| Accounts payable and accrued liabilities (note 12)                                                                               | 161,364           | 173,745           |
| Customer and other deposits                                                                                                      | 4,901             | 2,543             |
| Income taxes payable                                                                                                             | 1,351             | 5,661             |
| Other current liabilities                                                                                                        | 818               | 1,016             |
| Current portion of long-term debt (note 13)                                                                                      | 2,228             | 2,079             |
| Current portion of long-term liabilities                                                                                         | 5,300             | 5,500             |
| <b>Total current liabilities</b>                                                                                                 | <b>410,052</b>    | <b>392,038</b>    |
| <b>Long-term debt</b> (note 13)                                                                                                  | <b>225,805</b>    | <b>229,008</b>    |
| <b>Long-term liabilities</b>                                                                                                     | <b>8,352</b>      | <b>15,354</b>     |
| <b>Deferred income taxes</b> (note 19)                                                                                           | <b>15,850</b>     | <b>44,561</b>     |
| <b>Total liabilities</b>                                                                                                         | <b>660,059</b>    | <b>680,961</b>    |
| <b>Series A Preferred Stock</b> (note 14)                                                                                        | <b>80,193</b>     | <b>79,184</b>     |
| <b>EQUITY</b>                                                                                                                    |                   |                   |
| <b>SunOpta Inc. shareholders' equity</b>                                                                                         |                   |                   |
| Common shares, no par value, unlimited shares authorized,<br>86,757,334 shares issued (December 31, 2016 - 85,743,958) (note 15) | 308,899           | 300,426           |
| Additional paid-in capital                                                                                                       | 28,006            | 25,522            |
| Retained earnings (accumulated deficit)                                                                                          | (89,291)          | 53,838            |
| Accumulated other comprehensive loss (note 17)                                                                                   | (7,268)           | (13,104)          |
|                                                                                                                                  | <b>240,346</b>    | <b>366,682</b>    |

|                                                |         |           |
|------------------------------------------------|---------|-----------|
| <b>Non-controlling interests</b>               | 1,575   | 2,731     |
| <b>Total equity</b>                            | 241,921 | 369,413   |
| <b>Total equity and liabilities</b>            | 982,173 | 1,129,558 |
| <b>Commitments and contingencies</b> (note 23) |         |           |

(See accompanying notes to consolidated financial statements)

**SUNOPTA INC.**

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December 30, 2017 10-K

**SunOpta Inc.**

## Consolidated Statements of Shareholders Equity

As at and for the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

|                                                                             | 000s   | Common shares<br>\$ | Additional<br>paid-in<br>capital<br>\$ | Retained<br>earnings<br>(accumu-<br>lated deficit)<br>\$ | Accumulated<br>other com-<br>prehensive<br>income (loss)<br>\$ | Non-<br>controlling<br>interests<br>\$ | Total<br>\$ |
|-----------------------------------------------------------------------------|--------|---------------------|----------------------------------------|----------------------------------------------------------|----------------------------------------------------------------|----------------------------------------|-------------|
| <b>Balance at<br/>January 3,<br/>2015</b>                                   | 67,074 | 190,668             | 22,490                                 | 129,309                                                  | (1,778)                                                        | 12,639                                 | 353,328     |
| Issuance of<br>common shares,<br>net (note 15)                              | 16,670 | 95,654              | -                                      | -                                                        | -                                                              | -                                      | 95,654      |
| Employee share<br>purchase plan                                             | 55     | 590                 | -                                      | -                                                        | -                                                              | -                                      | 590         |
| Stock incentive<br>plan                                                     | 769    | 5,033               | (1,739)                                | -                                                        | -                                                              | -                                      | 3,294       |
| Warrants                                                                    | 850    | 6,042               | (2,163)                                | -                                                        | -                                                              | -                                      | 3,879       |
| Stock-based<br>compensation                                                 | -      | -                   | 4,757                                  | -                                                        | -                                                              | -                                      | 4,757       |
| Loss from<br>continuing<br>operations                                       | -      | -                   | -                                      | (2,996)                                                  | -                                                              | (136)                                  | (3,132)     |
| Loss from<br>discontinued<br>operations, net<br>of income taxes<br>(note 5) | -      | -                   | -                                      | (19,475)                                                 | -                                                              | (8,819)                                | (28,294)    |
| Currency<br>translation<br>adjustment                                       | -      | -                   | -                                      | -                                                        | (4,474)                                                        | (681)                                  | (5,155)     |
| Change in fair<br>value of interest<br>rate swaps, net<br>of income taxes   | -      | -                   | -                                      | -                                                        | 139                                                            | 71                                     | 210         |
| Non-controlling<br>interest from<br>acquisition of<br>business              | -      | -                   | -                                      | -                                                        | -                                                              | 1,781                                  | 1,781       |
| Acquisitions of<br>non-controlling<br>interest                              | -      | -                   | (1,018)                                | -                                                        | -                                                              | 285                                    | (733)       |
| <b>Balance at<br/>January 2,<br/>2016</b>                                   | 85,418 | 297,987             | 22,327                                 | 106,838                                                  | (6,113)                                                        | 5,140                                  | 426,179     |

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|                                                                 |               |                |               |               |                 |              |                |
|-----------------------------------------------------------------|---------------|----------------|---------------|---------------|-----------------|--------------|----------------|
| Employee share purchase plan                                    | 83            | 391            | -             | -             | -               | -            | 391            |
| Stock incentive plan                                            | 243           | 2,048          | (953)         | -             | -               | -            | 1,095          |
| Stock-based compensation                                        | -             | -              | 4,148         | -             | -               | -            | 4,148          |
| Dividends on Series A Preferred Stock (note 14)                 | -             | -              | -             | (1,590)       | -               | -            | (1,590)        |
| Accretion on Series A Preferred Stock (note 14)                 | -             | -              | -             | (222)         | -               | -            | (222)          |
| Loss from continuing operations                                 | -             | -              | -             | (50,618)      | -               | 54           | (50,564)       |
| Loss from discontinued operations, net of income taxes (note 5) | -             | -              | -             | (570)         | -               | (264)        | (834)          |
| Disposition of discontinued operation (note 5)                  | -             | -              | -             | -             | (5,094)         | (2,054)      | (7,148)        |
| Currency translation adjustment                                 | -             | -              | -             | -             | (1,897)         | (145)        | (2,042)        |
| <b>Balance at December 31, 2016</b>                             | <b>85,744</b> | <b>300,426</b> | <b>25,522</b> | <b>53,838</b> | <b>(13,104)</b> | <b>2,731</b> | <b>369,413</b> |
| Employee share purchase plan                                    | 61            | 409            | -             | -             | -               | -            | 409            |
| Stock incentive plan                                            | 952           | 8,064          | (3,439)       | -             | -               | -            | 4,625          |
| Stock-based compensation                                        | -             | -              | 5,709         | -             | -               | -            | 5,709          |
| Dividends on Series A Preferred Stock (note 14)                 | -             | -              | -             | (6,800)       | -               | -            | (6,800)        |
| Accretion on Series A Preferred Stock (note 14)                 | -             | -              | -             | (1,009)       | -               | -            | (1,009)        |
| Loss                                                            | -             | -              | -             | (135,320)     | -               | 752          | (134,568)      |
|                                                                 | -             | -              | -             | -             | 6,223           | (39)         | 6,184          |

|                                                         |               |                |               |                 |                |              |                |
|---------------------------------------------------------|---------------|----------------|---------------|-----------------|----------------|--------------|----------------|
| Currency translation adjustment                         |               |                |               |                 |                |              |                |
| Cash flow hedges, net of income taxes of \$130 (note 7) | -             | -              | -             | -               | (305)          | -            | (305)          |
| Acquisition of non-controlling interests (note 3)       | -             | -              | 214           | -               | (82)           | (1,869)      | (1,737)        |
| <b>Balance at December 30, 2017</b>                     | <b>86,757</b> | <b>308,899</b> | <b>28,006</b> | <b>(89,291)</b> | <b>(7,268)</b> | <b>1,575</b> | <b>241,921</b> |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

|                                                                           | December 30, 2017<br>\$ | December 31, 2016<br>\$ | January 2, 2016<br>\$ |
|---------------------------------------------------------------------------|-------------------------|-------------------------|-----------------------|
| <b>CASH PROVIDED BY (USED IN)</b>                                         |                         |                         |                       |
| <b>Operating activities</b>                                               |                         |                         |                       |
| Loss                                                                      | (134,568)               | (51,134)                | (22,607)              |
| Loss from discontinued operations attributable to SunOpta Inc.            | -                       | (570)                   | (19,475)              |
| Loss from continuing operations                                           | (134,568)               | (50,564)                | (3,132)               |
| Items not affecting cash:                                                 |                         |                         |                       |
| Depreciation and amortization                                             | 32,824                  | 34,150                  | 21,007                |
| Amortization and write-off of debt issuance costs (note 13)               | 2,825                   | 11,301                  | 5,895                 |
| Deferred income taxes (note 19)                                           | (27,899)                | (29,850)                | (4,038)               |
| Stock-based compensation                                                  | 5,709                   | 4,148                   | 4,366                 |
| Unrealized loss (gain) on derivative instruments (note 7)                 | (631)                   | (547)                   | 143                   |
| Fair value of contingent consideration (note 18)                          | 371                     | (1,158)                 | 884                   |
| Impairment of long-lived assets (note 18)                                 | 18,193                  | 13,257                  | -                     |
| Goodwill impairment (note 11)                                             | 115,000                 | 17,540                  | -                     |
| Acquisition accounting adjustment on inventory sold (note 2)              | -                       | 15,000                  | 4,000                 |
| Other                                                                     | 9                       | 335                     | 990                   |
| Changes in non-cash working capital, net of businesses acquired (note 21) | 19,630                  | (12,891)                | (3,685)               |
| Net cash flows from operating activities - continuing operations          | 31,463                  | 721                     | 26,430                |
| Net cash flows from operating activities - discontinued operations        | -                       | 758                     | 4,814                 |
|                                                                           | 31,463                  | 1,479                   | 31,244                |
| <b>Investing activities</b>                                               |                         |                         |                       |
| Purchases of property, plant and equipment                                | (41,139)                | (22,560)                | (31,186)              |
| Acquisition of non-controlling interests (note 3)                         | (1,737)                 | -                       | (733)                 |
| Proceeds from sale of assets                                              | 2,385                   | 254                     | 1,138                 |
| Acquisition of businesses, net of cash acquired (note 2)                  | -                       | -                       | (490,715)             |
| Other                                                                     | 369                     | 700                     | (89)                  |
| Net cash flows from investing activities - continuing operations          | (40,122)                | (21,606)                | (521,585)             |
| Net cash flows from investing activities - discontinued operations        | -                       | 1,754                   | (1,235)               |
|                                                                           | (40,122)                | (19,852)                | (522,820)             |
| <b>Financing activities</b>                                               |                         |                         |                       |
| Increase under line of credit facilities (note 13)                        | 22,170                  | 236,976                 | 85,968                |
| Repayment of line of credit facilities (note 13)                          | -                       | (192,677)               | -                     |
| Borrowings under long-term debt (note 13)                                 | 5,176                   | 231,430                 | 330,135               |

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|                                                                          |         |           |          |
|--------------------------------------------------------------------------|---------|-----------|----------|
| Repayment of long-term debt (note 13)                                    | (9,959) | (322,004) | (11,018) |
| Issuance of Series A Preferred Stock, net (note 14)                      | -       | 78,963    | -        |
| Payment of cash dividends on Series A Preferred Stock (note 14)          | (6,691) | -         | -        |
| Payment of contingent consideration (note 7)                             | (4,330) | (4,554)   | (204)    |
| Payment of debt issuance costs                                           | (442)   | (13,017)  | (15,966) |
| Proceeds from the exercise of stock options and employee share purchases | 5,034   | 1,486     | 3,884    |
| Proceeds from the issuance of common shares, net                         | -       | -         | 94,080   |
| Proceeds from the exercise of warrants                                   | -       | -         | 3,879    |
| Other                                                                    | (390)   | 168       | (781)    |
| Net cash flows from financing activities - continuing operations         | 10,568  | 16,771    | 489,977  |
| Net cash flows from financing activities - discontinued operations       | -       | (1,180)   | (4,304)  |
|                                                                          | 10,568  | 15,591    | 485,673  |
| Foreign exchange gain (loss) on cash held in a foreign currency          | 68      | 52        | (54)     |
| Increase (decrease) in cash and cash equivalents during the year         | 1,977   | (2,730)   | (5,957)  |
| Discontinued operations cash activity included above:                    |         |           |          |
| Add: Balance included at beginning of year                               | -       | 1,707     | 2,170    |
| Less: Balance included at end of year                                    | -       | -         | (1,707)  |
| Cash and cash equivalents - beginning of the year                        | 1,251   | 2,274     | 7,768    |
| Cash and cash equivalents - end of the year                              | 3,228   | 1,251     | 2,274    |
| (See accompanying notes to consolidated financial statements)            |         |           |          |

SUNOPTA INC.

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**SunOpta Inc.**

## Consolidated Statements of Cash Flows (Continued)

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

|                                                                             | December 30, 2017<br>\$ | December 31, 2016<br>\$ | January 2, 2016<br>\$ |
|-----------------------------------------------------------------------------|-------------------------|-------------------------|-----------------------|
| <b>Non-cash investing and financing activities</b>                          |                         |                         |                       |
| Accrued cash dividends on Class A Preferred Stock (note 14)                 | (1,700)                 | (1,590)                 | -                     |
| Proceeds on disposition of discontinued operation, note receivable (note 5) | -                       | 1,537                   | -                     |
| Acquisition of business, contingent consideration at fair value (note 2)    | -                       | -                       | (20,330)              |
| Acquisition of business, working capital adjustment                         | -                       | -                       | 82                    |
| Acquisition of business, settlement of pre-existing relationship            | -                       | -                       | (749)                 |
| (See accompanying notes to consolidated financial statements)               |                         |                         |                       |

**SUNOPTA INC.**

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## **SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

### **1. Description of Business and Significant Accounting Policies**

SunOpta Inc. (the Company or SunOpta) was incorporated under the laws of Canada on November 13, 1973. The Company operates businesses focused on a healthy products portfolio that promotes sustainable well-being. The Company's two reportable segments, Global Ingredients and Consumer Products, operate in the natural, organic and specialty food sectors and utilize an integrated business model to bring cost-effective and quality products to market.

#### ***Basis of Presentation***

These consolidated financial statements have been prepared by the Company in United States ( U.S. ) dollars and in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). The consolidated financial statements include the accounts of the Company and those of its wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated on consolidation.

#### ***Fiscal Year***

The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal years 2017, 2016 and 2015 were each 52-week periods ending on December 30, 2017, December 31, 2016 and January 2, 2016, respectively. Fiscal year 2018 will be a 52-week period ending on December 29, 2018, with quarterly periods ending on March 31, June 30, and September 29, 2018.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Areas involving significant estimates and assumptions include: allocation of the purchase price of acquired businesses; inventory valuation reserves; income tax liabilities and assets, and related valuation allowances; provisions for loss contingencies related to claims and litigation; fair value of contingent consideration liabilities; useful lives of property, plant and equipment and intangible assets; expected future cash flows used in evaluating long-lived assets for impairment; and reporting unit fair values in testing goodwill for impairment. The estimates and assumptions made require judgment on the part of management and are based on the Company's historical experience and various other factors that are believed to be reasonable in the circumstances. Management continually evaluates the information that forms the basis of its estimates and assumptions as the business of the Company and the general business environment changes.

#### ***Business Acquisitions***

Acquired businesses are accounted for using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recorded at fair value, with limited exceptions. Any excess of the purchase price over the fair value of the net assets acquired is recorded as goodwill. Acquisition-related transaction costs are accounted for as an expense in the period in which the costs are incurred. Contingent consideration is measured at fair value and recognized as part of the consideration transferred in exchange for the acquired businesses. Contingent consideration liabilities are remeasured to fair value at each reporting date with the changes in fair value recognized in other expense/income on the consolidated statements of operations.

***Financial Instruments***

The Company's financial instruments recognized in the consolidated balance sheets and included in working capital consist of cash and cash equivalents, accounts receivable, derivative instruments, accounts payable and accrued liabilities, and customer and other deposits. Cash and cash equivalents, inventories carried at market and derivative instruments are measured at fair value each reporting period. The fair values of the remaining financial instruments approximate their carrying values due to their short-term maturities.

The Company's financial instruments exposed to credit risk include cash equivalents, accounts receivable and derivative instruments. The Company places its cash and cash equivalents with institutions of high creditworthiness. To limit the credit risk associated with derivative instruments, the Company contracts with counterparties that are highly-rated financial institutions. The Company's trade accounts receivable are not subject to a high concentration of credit risk. The Company routinely assesses the financial strength of its customers and believes that its accounts receivable credit risk exposure is limited. The Company maintains an allowance for losses based on the expected collectability of the accounts receivable.

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

***Fair Value Measurements***

The Company has various financial assets and liabilities that are measured at fair value on a recurring basis, including certain inventories and derivatives, as well as contingent consideration. The Company also applies the provisions of fair value measurement to various non-recurring measurements for financial and non-financial assets and liabilities measured at fair value on a non-recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, an exit price). Fair value measurements are estimated based on inputs categorized as follows:

Level 1 inputs include quoted prices (unadjusted) for identical assets or liabilities in active markets that are observable.

Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 includes unobservable inputs that reflect the Company's own assumptions about what factors market participants would use in pricing the asset or liability.

When measuring fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

***Foreign Currency Translation***

The assets and liabilities of the Company's operations having a functional currency other than the U.S. dollar are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date, and at the average rate for the reporting period for revenue and expense items. The cumulative currency translation adjustment is recorded as a component of accumulated other comprehensive income in shareholders' equity. Foreign currency gains and losses related to the remeasurement of the Company's Mexican operation into its U.S. dollar functional currency are recognized in earnings.

Exchange gains and losses on transactions occurring in a currency other than an operation's functional currency are recognized in earnings.

**SUNOPTA INC.**

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash and short-term deposits with an original maturity of 90 days or less.

***Accounts Receivable***

Accounts receivable includes trade receivables that are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is an estimate of the amount of probable credit losses in existing accounts receivable. Account balances are charged off against the allowance when the Company determines the receivable will not be recovered. As at December 30, 2017 and December 31, 2016, no customer's balance represented 10% or more of the Company's consolidated trade receivables balance.

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**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

***Inventories***

Inventories (excluding commodity grains) are valued at the lower of cost and net realizable value. Shipping and handling costs are included in cost of goods sold on the consolidated statements of operations.

Inventories of commodity grains, which include amounts acquired under deferred pricing contracts traded on the Chicago Board of Trade ( CBoT ), are valued at market. Grain inventory quantities at year-end are multiplied by the quoted price on the CBoT to reflect the market value of the inventory. This market value is then adjusted for a basis factor that represents differences in local markets, and broker and dealer quotes to arrive at market. Changes in CBoT prices or the basis factor are included in cost of goods sold on the consolidated statements of operations.

SunOpta economically hedges its commodity grain positions to protect gains and minimize losses due to market fluctuations. Futures contracts and purchase and sale contracts are adjusted to market price and resulting gains and losses from these transactions are included in cost of goods sold. As the Company has a risk of loss from hedge activity if the grower does not deliver the grain as scheduled, these transactions do not qualify as hedges under U.S. GAAP and, therefore, changes in market value are recorded in cost of goods sold on the consolidated statements of operations.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line basis at rates reflecting the estimated useful lives of the assets.

|                                |               |
|--------------------------------|---------------|
| Buildings                      | 20 - 40 years |
| Machinery and equipment        | 5 - 20 years  |
| Enterprise software            | 3 - 5 years   |
| Office furniture and equipment | 3 - 7 years   |
| Vehicles                       | 3 - 7 years   |

***Goodwill***

Goodwill represents the excess in a business combination of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized but is instead tested for impairment at least annually, or whenever events or circumstances change between the annual impairment tests that would indicate the carrying amount of goodwill may be impaired. The Company performs its annual test for goodwill impairment in the fourth quarter of each fiscal year. Prior to fiscal 2017, the Company performed a quantitative test for goodwill impairment by comparing the carrying amount of each reporting unit to its estimated fair value (Step 1). If the carrying amount exceeded the reporting unit's fair value, there was a potential impairment of goodwill. Any impairment of goodwill was measured by comparing the implied fair value of goodwill with its carrying amount (Step 2). The implied fair value of goodwill was determined by deducting the fair value of all the assets and liabilities of the reporting unit from the reporting unit's fair value as determined in Step 1.

Effective with the fiscal 2017 annual impairment test, the Company elected the early adoption of ASU 2017-04,

Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill as contemplated by Step 2 of the prior goodwill impairment test model. Instead, impairment charges are recognized based on the excess of a reporting unit's

carrying amount over its fair value as contemplated by Step 1 of the goodwill impairment model. The fair values of the Company's reporting units are determined using an income approach (discounted cash flow method). The results of the Company annual impairment tests for goodwill are described in note 11.

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**SunOpta Inc.**

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

***Intangible Assets***

The Company's finite-lived intangible assets consist of customer and other relationships, patents and trademarks, and other intangible assets. These intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

|                                  |               |
|----------------------------------|---------------|
| Customer and other relationships | 10 - 25 years |
| Patents and trademarks           | 15 years      |
| Other                            | 5 - 15 years  |

***Impairment of Long-Lived Assets***

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If impairment exists based on expected future undiscounted cash flows, a loss is recognized in earnings. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset, typically determined using a discounted cash flow analysis (income approach).

***Derivative Instruments***

The Company is exposed to fluctuations in commodity prices and foreign currency exchange. The Company utilizes certain derivative financial instruments to enhance its ability to manage these risks, including exchange-traded commodity futures, commodity forward purchase and sale contracts and forward foreign exchange contracts. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes.

All derivative instruments are recognized on the consolidated balance sheets at fair value. Changes in the fair value of derivative instruments are recorded in earnings or other comprehensive earnings, based on whether the instrument is designated as part of a hedge transaction. Gains or losses on derivative instruments reported in accumulated other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedges is recognized in earnings in the current period. As at December 30, 2017, the Company utilized the following derivative instruments to manage commodity and foreign currency risks:

Exchange-traded commodity futures contracts to economically hedge its exposure to price fluctuations on grain and cocoa transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for economical hedging purposes are purchased and sold through regulated commodity exchanges in the U.S. However, inventories may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Forward purchase and sale contracts may expose the Company to risk in the event that a counterparty to a transaction is unable to fulfill its contractual obligation or if a grower does not deliver grain as scheduled. The Company manages its risk by entering into purchase contracts with pre-approved growers and sale contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures and forward purchase and sale contracts are marked-to-market. Gains and losses on these transactions are included in cost of goods sold on the consolidated statements of operations.

Forward foreign exchange contracts to minimize exchange rate fluctuations relating to foreign currency denominated purchase and sale contracts and accounts payable and receivable. Forward foreign exchange contracts designated as hedges are marked-to-market with the effective portion of the gain or loss recognized in other comprehensive earnings and subsequently recognized in earnings in the same period the hedged item affects earnings. Gains and losses on forward exchange contracts not specifically designated as hedging instruments are included in foreign exchange gain/loss on the consolidated statements of operations.

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***Debt Issuance Costs***

Costs incurred in connection with obtaining debt financing are deferred and amortized over the term of the financing arrangement using the effective interest method. Costs incurred to secure revolving lines of credit are recorded in other long-term assets. All other debt issuance costs are recorded as a direct deduction from the related debt liability.

***Customer and Other Deposits***

Customer and other deposits include prepayments by customers for merchandise inventory to be purchased at a future date.

***Income Taxes***

The Company follows the asset and liability method of accounting for income taxes whereby deferred income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes.

Deferred income tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The income tax expense or benefit is the income tax payable or recoverable for the year plus or minus the change in deferred income tax assets and liabilities during the year.

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional income tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts income tax expense to reflect the Company's ongoing assessments of such matters, which requires judgment and can materially increase or decrease its effective rate as well as impact operating results. The evaluation of tax positions taken or expected to be taken in a tax return is a two-step process, whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position, and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the related tax authority.

***Stock Incentive Plan***

The Company maintains a stock incentive plan under which stock options and other stock-based awards may be granted to selected employees and directors. The Company measures stock-based awards at fair value as of the date of grant. Compensation expense is recognized on a straight-line basis over vesting period of the entire stock-based award based on the estimated number of awards that are expected to vest. When exercised, stock-based awards are settled through the issuance of common shares and are therefore treated as equity awards.

***Revenue Recognition***

Revenue is recognized when realized or realizable and earned, and when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred; the price to the customer is fixed or determinable; and collection is reasonably assured. Revenue is recognized when title and possession of the product has transferred to the customer. Possession is transferred to the customer at the time of shipment from the Company's facility or at the time of delivery to a specified destination depending on the contractual terms of the sale. Consideration given to customers such as value incentives, rebates, early payment discounts and other discounts are recorded as reductions to revenues at the time of sale. These reductions are estimated based on contractual sales terms with customers and historical payment experience.

### ***Earnings Per Share***

Basic earnings per share is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding during the year. Earnings available to common shareholders is computed by deducting dividends and accretion on convertible preferred stock from earnings attributable to SunOpta Inc. The potential diluted effect of stock options and other stock-based awards is computed using the treasury stock method whereby the weighted-average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the potential dilutive common shares had been issued at the beginning of the year. The potential dilutive effect of convertible preferred stock is computed using the if-converted method whereby dividends and accretion on the convertible preferred stock are added back to the numerator, and the common shares resulting from the assumed conversion of the convertible preferred stock are included in the denominator of the diluted earnings per share calculation.

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## **SunOpta Inc.**

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

### ***Contingencies***

In the normal course of business, the Company is subject to loss contingencies, such as accrued but unpaid bonuses; tax-related matters; and claims or litigation. Accruals for loss contingencies are recorded when the Company determines that it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the estimate of the amount of the loss is a range and some amount within the range appears to be a better estimate than any other amount within the range, that amount is accrued as a liability. If no amount within the range is a better estimate than any other amount, the minimum amount of the range is accrued as a liability.

The Company recognizes an asset for insurance recoveries when a loss event has occurred and recovery is considered probable, to the extent that the potential recovery does not exceed the loss recognized.

### ***Recent Accounting Pronouncements***

#### Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2016-09, Improvements to Employee Share-Based Payment Accounting , which is intended to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Under the new guidance, companies will record excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. In addition, the guidance permits companies to elect to recognize forfeitures of share-based payments as they occur, rather than estimating the number of awards expected to be forfeited as is currently required. This guidance is effective for annual and interim periods beginning after December 15, 2016. The Company adopted ASU 2016-09 effective January 1, 2017, and elected upon adoption to recognize forfeitures of stock-based awards as they occur versus estimating at the time of grant. The cumulative effect of this change in accounting policy as at January 1, 2017, was not material to the Company's financial statements. Commencing January 1, 2017, the Company recognizes excess tax benefits and deficiencies in the provision for income taxes on its consolidated statements of operations and as an operating activity on the consolidated statements of cash flows.

#### Recently Issued Accounting Standards, Not Adopted as at December 30, 2017

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments , which requires measurement and recognition of expected versus incurred credit losses for most financial assets. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases , a comprehensive new standard that amends various aspects of existing accounting guidance for leases, including the recognition of a right of use asset and a lease liability for leases with a duration of greater than one year. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements; however, the Company anticipates that upon adoption of the standard it will recognize additional assets and corresponding liabilities related to leases on its balance sheet.



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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes existing revenue recognition guidance under U.S. GAAP. Under the new standard, a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. During 2016, the FASB issued ASU 2016-08, ASU 2016-10, 2016-11, 2016-12 and 2016-20, all of which clarify certain implementation guidance within ASU 2014-09. ASU 2014-09, as amended, is effective for annual and interim periods beginning on or after December 15, 2017, and is to be applied on either a full retrospective or modified retrospective basis.

With the assistance of third-party consultants, the Company analyzed its significant customer contracts to determine the effects of ASU 2014-09. In particular, the Company assessed under the new guidance whether its contracts with customers to produce certain consumer-packaged goods would permit the Company to recognize revenue over time versus at a point in time, based on whether the given product has an alternative use or not and whether there is an enforceable right to payment under the contract for product produced to date. Based on its assessment, the Company concluded that it does not satisfy the criteria to recognize revenue over time. The Company will continue to recognize revenue at a point in time consistent with its current policies and processes, which is typically when title and physical possession of the product has transferred to the customer. The Company also transacts with certain customers on a bill-and-hold basis, whereby the Company bills a customer for product to be delivered at a later date. Prior to the adoption of ASU 2014-09, the Company deferred the recognition of revenue related to these bill-and-hold arrangements, as the arrangements did not typically include a fixed delivery schedule. As this criterion is no longer a consideration under ASU 2014-09, these arrangements now qualify for revenue recognition at the point in time that the customer obtains control of the product and the Company has a present right to payment. With the exception of bill-and-hold arrangements, the adoption of ASU 2014-09 is not expected to have a significant impact on the Company's consolidated financial statements and revenue recognition practices, or its internal controls.

The Company will adopt ASU 2014-09 using the modified retrospective approach, which is expected to result in a cumulative effect adjustment to opening accumulated deficit as at December 31, 2017 of \$0.2 million, related to the recognition of \$4.8 million of bill-and-hold revenue deferred under existing U.S. GAAP as at December 30, 2017. The Company is currently in the process of reviewing its disclosures for revenue recognition to conform with the disclosure requirements of the standard beginning with the first quarter of 2018.

## **2. Business Acquisitions**

### ***Sunrise Holdings (Delaware), Inc.***

On October 9, 2015, the Company completed the acquisition of 100% of the issued and outstanding common shares of Sunrise Holdings (Delaware), Inc. ( *Sunrise* ), pursuant to a Purchase and Sale Agreement dated July 30, 2015 (the *Sunrise Acquisition* ). Sunrise is a processor of conventional and organic frozen fruit in the U.S. and Mexico. The acquisition of Sunrise was accounted for as a business combination under the acquisition method of accounting. The results of Sunrise have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The acquisition of Sunrise is aligned with the Company's strategic focus on organic and healthy foods.



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Total consideration for the Sunrise Acquisition was \$472.7 million in cash paid at the acquisition date, which included the repayment of all outstanding obligations under Sunrise's senior credit facility in the amount of \$171.5 million. In addition, the total consideration included \$23.0 million paid by the Company to the holders of Sunrise stock options. As all outstanding Sunrise stock options vested upon the consummation of the Sunrise Acquisition, pursuant to the terms of Sunrise's pre-existing stock option agreements, the cash consideration paid to the option holders was attributed to services prior to the Sunrise Acquisition and included as a component of the purchase price. The total consideration also included \$20.9 million paid by the Company to settle acquisition-related transaction costs incurred by Sunrise in connection with the Sunrise Acquisition. As none of these costs were incurred by Sunrise on behalf of the Company, the cash consideration paid to settle these costs was included as a component of the purchase price.

The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date:

|                                           | \$       |
|-------------------------------------------|----------|
| Cash and cash equivalents                 | 1,728    |
| Accounts receivable                       | 26,090   |
| Inventories <sup>(1)</sup>                | 124,829  |
| Income taxes recoverable                  | 12,025   |
| Other current assets                      | 3,982    |
| Property, plant and equipment             | 46,068   |
| Intangible assets <sup>(2)</sup>          | 170,000  |
| Accounts payable and accrued liabilities  | (24,169) |
| Long-term debt, including current portion | (7,620)  |
| Deferred income taxes, net                | (75,193) |
| Net identifiable assets acquired          | 277,740  |
| Goodwill <sup>(3)</sup>                   | 196,709  |
| Non-controlling interest <sup>(4)</sup>   | (1,781)  |
| Net assets acquired                       | 472,668  |

- (1) Includes an estimated fair value adjustment to inventory of \$19.0 million, of which \$15.0 million and \$4.0 million was recognized in costs of goods sold for inventory sold during 2016 and in the fourth quarter of 2015, respectively.
- (2) The identified intangible assets relate to customer relationships in existence at the acquisition date between Sunrise and major U.S. retail and foodservice customers. The customer relationships intangible assets will be amortized over an estimated weighted-average useful life of approximately 23 years. The estimated fair value of the intangible asset was determined using an income approach (discounted cash flow method), which applied a risk-adjusted discount rate of approximately 12.0%.
- (3) Goodwill is calculated as the difference between the acquisition-date fair values of the total consideration and the net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is not expected to be deductible for tax purposes. The goodwill recognized is attributable to: (i) cost savings, operating synergies, and other benefits expected to result from combining the operations of Sunrise with those of the Company; (ii) the value of longer-term growth prospects in the private label frozen fruit market; (iii) the value of acquiring the current capabilities and low-cost position of the existing Sunrise business (i.e., the higher rate of return on the assembled net assets versus acquiring all of the net assets separately); and (iv) the value of Sunrise's assembled workforce.

In 2017, the Company recorded a \$115.0 million impairment charge related to the goodwill that arose from the Sunrise Acquisition (see note 11).

- (4) Represents the estimated fair value of the non-controlling interest in Sunrise's 75%-owned Mexican subsidiary, Opus Foods Mexico, S.A. de C.V. ( Opus ). In 2017, the Company acquired all of the non-controlling interests in Opus (see note 3).

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

**Niagara Natural Fruit Snack Company Inc.**

On August 11, 2015, the Company acquired the net operating assets of Niagara Natural Fruit Snack Company Inc. (Niagara Natural). Niagara Natural is a manufacturer of all-natural fruit snacks located in the Niagara Region of Ontario. The acquisition of the net operating assets of Niagara Natural was accounted for as a business combination under the acquisition method of accounting. The results of Niagara Natural have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The transaction included a cash purchase price of \$6.5 million, subject to certain post-closing adjustments, plus contingent consideration of up to approximately \$2.8 million based on specific performance targets. The fair value of the contingent consideration obligation was determined to be \$2.3 million as at the acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date:

|                                  | Provisional<br>Amounts<br>Recognized as at<br>the Acquisition<br>Date<br>\$ | Measurement<br>Period<br>Adjustment <sup>(1)</sup><br>\$ | Final Amounts<br>Recognized as at<br>the Acquisition<br>Date<br>\$ |
|----------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------|
| Current assets                   | 2,220                                                                       | (292)                                                    | 1,928                                                              |
| Machinery and equipment          | 3,414                                                                       | -                                                        | 3,414                                                              |
| Intangible assets <sup>(2)</sup> | 2,459                                                                       | -                                                        | 2,459                                                              |
| Current liabilities              | (687)                                                                       | -                                                        | (687)                                                              |
| Net identifiable assets acquired | 7,406                                                                       | (292)                                                    | 7,114                                                              |
| Goodwill <sup>(3)</sup>          | 1,636                                                                       | -                                                        | 1,636                                                              |
| Net assets acquired              | 9,042                                                                       | (292)                                                    | 8,750                                                              |

(1) The measurement period adjustment reflected the final determination of net working capital as at the acquisition date.

(2) Intangible assets comprise customer relationships and non-competition arrangements, which will be amortized over an estimated weighted-average useful life of approximately 19 years.

(3) The total amount of goodwill was assigned to the Consumer Products operating segment.

On May 5, 2016, the Company and the owners of Niagara Natural entered into an agreement to settle the contingent consideration obligation in exchange for a one-time cash payment of \$0.6 million. In 2016, the Company recognized a gain of \$1.7 million in connection with this settlement, based on the difference between the fair value of the contingent consideration obligation and the cash payment, which is recorded in other expense on the consolidated statement of operations for the year ended December 31, 2016.

**Citrusource, LLC**

On March 2, 2015, the Company acquired 100% of the issued and outstanding units of Citrusource, LLC (Citrusource), a producer of premium not-from-concentrate private label organic and conventional orange juice and citrus products in the U.S. The acquisition of Citrusource was accounted for as a business combination under the

acquisition method of accounting. The results of Citrusource have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The transaction included a cash purchase price of \$13.3 million, subject to certain post-closing adjustments, plus contingent consideration based on the incremental growth in Citrusource's base business. The fair value of the contingent consideration obligation was determined to be \$18.0 million as at the acquisition date. In 2017 and 2016, the Company paid \$4.1 million and \$3.9 million, respectively, to the former unitholders of Citrusource in partial settlement of the contingent consideration obligation.

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The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date:

|                                                        | \$      |
|--------------------------------------------------------|---------|
| Accounts receivable                                    | 2,351   |
| Inventories                                            | 1,745   |
| Machinery and equipment                                | 164     |
| Customer relationships intangible asset <sup>(1)</sup> | 14,000  |
| Accounts payable and accrued liabilities               | (1,666) |
| Net identifiable assets acquired                       | 16,594  |
| Goodwill <sup>(2)</sup>                                | 15,136  |
| Net assets acquired                                    | 31,730  |

- (1) The customer relationships intangible asset was recognized based on contracts in existence at the acquisition date between Citrusource and major U.S. retail customers. This intangible asset will be amortized over an estimated useful life of approximately 12 years.
- (2) Goodwill is calculated as the difference between the acquisition-date fair values of the consideration transferred and net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is expected to be fully deductible for tax purposes. The goodwill recognized is attributable to: (i) operating synergies expected to result from combining the operations of Citrusource with those of the Company; and (ii) opportunities to leverage the business experience of Citrusource's management team to grow the Company's existing citrus beverage program.

**3. Acquisition of Non-Controlling Interests in Mexican Subsidiary**

On July 28, 2017, the Company acquired all the capital stock of Opus held by non-controlling interests for \$1.7 million, which increased the Company's equity ownership in Opus from 75% to 100%. The Company acquired its initial 75% interest in Opus through the Sunrise Acquisition (see note 2). Opus owns and operates a frozen fruit processing facility located in central Mexico. The increase in the Company's ownership position in Opus was accounted for as an equity transaction, with the difference between the cash consideration paid and the amount of the non-controlling interest related to Opus being recognized in additional paid-in capital.

**4. Value Creation Plan****Overview**

On October 7, 2016, the Company entered into a strategic partnership with Oaktree Capital Management L.P., a private equity investor (together with its affiliates, "Oaktree"). On October 7, 2016, Oaktree invested \$85.0 million through the purchase of cumulative, non-participating Series A Preferred Stock (the "Preferred Stock") of the Company's wholly-owned subsidiary, SunOpta Foods Inc. ("SunOpta Foods") (see note 14). Following the strategic partnership, with the assistance of Oaktree, the Company conducted a thorough review of its operations, management and governance, with the objective of maximizing the Company's ability to deliver long-term value to its shareholders. As a product of this review, the Company developed a Value Creation Plan built on four pillars: portfolio optimization, operational excellence, go-to-market effectiveness and process sustainability. The Company engaged third-party management consulting firms to support the design and implementation of the Value Creation Plan.

In 2016, measures taken under the Value Creation Plan included the closure of the Company's San Bernardino, California, juice facility and the Company's soy extraction facility in Heuvelton, New York. In addition, effective November 11, 2016, Hendrik Jacobs stepped down as the Company's President and Chief Executive Officer ( CEO ).

In 2017, further measures were taken under the Value Creation Plan, including the exits from flexible resealable pouch and nutrition bar product lines and operations (as described below), as well as the consolidation of grain operations and related closure of a grain-handling facility in Moorhead, Minnesota, and the planned consolidation of roasted snack operations and related closure of the Company's Wahpeton, North Dakota, roasting facility. In addition, the Company made organizational changes within its management and executive teams, including the appointment of David Colo as President and CEO effective February 6, 2017, along with new leadership to many corporate, commercial and operational functions. The Company also added new employees in the areas of quality, sales, marketing, operations and engineering, and made capital investments at several of its manufacturing facilities to enhance food safety and production efficiencies.

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***Exit from Flexible Resealable Pouch and Nutrition Bar Product Lines and Operations***

On July 26, 2017, SunOpta Foods entered an agreement with Skjodt-Barrett Contract Packaging LLC to sell equipment used in the production of flexible resealable pouches at the Company's Allentown, Pennsylvania facility for gross proceeds of \$2.0 million (\$1.3 million net of costs to sell). The transaction closed on November 3, 2017. The Company continued to produce flexible resealable pouch products for existing customers until the closing date. The Company's aseptic beverage operations were not affected by the sale of assets, and the Company will continue to produce aseptic beverages at its Allentown facility.

On September 27, 2017, the Company announced its intention to exit its nutrition bar product lines and operations in Carson City, Nevada, with final production for customers ending on December 20, 2017. On November 21, 2017, the Company entered into an agreement to sell the nutrition bar equipment for gross proceeds of \$0.9 million, of which \$0.2 million was received on signing and \$0.7 million was received at closing on January 3, 2018. The Company is pursuing potential parties interested assuming the facility lease.

As the flexible resealable pouch and nutrition bar product lines and operations do not qualify for presentation as discontinued operations, operating results from these activities were reported in continuing operations on the consolidated statements of operations for the current and comparative periods. Revenues from sales of these product lines were \$53.1 million, \$59.3 million and \$58.1 million for the years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. Losses before income taxes from these operations were \$24.4 million, \$2.1 million and \$2.8 million for the years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. For the year ended December 30, 2017, the loss before income taxes from these operations included write-offs of accounts receivable and inventory (\$2.9 million) and impairments of long-lived assets (\$13.2 million) related to the exit activities, as well as employee termination costs of \$1.7 million. These operations were included in the Consumer Products operating segment.

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***Continuity of Costs Incurred Under the Value Creation Plan***

The following table summarizes costs incurred since the inception of the Value Creation Plan to December 30, 2017:

|                                                                | (a)<br>Asset<br>impairments<br>and facility<br>closure costs<br>\$ | (b)<br>Employee<br>recruitment,<br>retention and<br>termination<br>costs<br>\$ | (c)<br>Consulting<br>fees and<br>temporary<br>labor costs<br>\$ | Total<br>\$ |
|----------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------|-------------|
| <b>Fiscal 2016</b>                                             |                                                                    |                                                                                |                                                                 |             |
| Costs incurred and charged to expense                          | 11,522                                                             | 2,763                                                                          | 4,041                                                           | 18,326      |
| Cash payments                                                  | -                                                                  | (694)                                                                          | (2,384)                                                         | (3,078)     |
| Non-cash adjustments                                           | (11,522)                                                           | (266)                                                                          | -                                                               | (11,788)    |
| Balance payable, December 31, 2016 <sup>(1)</sup>              | -                                                                  | 1,803                                                                          | 1,657                                                           | 3,460       |
| <b>Fiscal 2017</b>                                             |                                                                    |                                                                                |                                                                 |             |
| Costs incurred and charged to expense                          | 21,766                                                             | 11,618                                                                         | 16,528                                                          | 49,912      |
| Cash payments, net of proceeds on disposal of assets           | (10,746)                                                           | (9,683)                                                                        | (18,185)                                                        | (38,614)    |
| Non-cash adjustments                                           | (11,720)                                                           | 689                                                                            | -                                                               | (11,031)    |
| Balance payable (receivable), December 30, 2017 <sup>(1)</sup> | (700)                                                              | 4,427                                                                          | -                                                               | 3,727       |

(1) Balance payable was included in accounts payable and accrued liabilities and balance receivable was included in accounts receivable on the consolidated balance sheets.

**(a) Asset impairments and facility closure costs**

For 2017, includes an additional asset impairment loss of \$3.7 million on the disposal of the San Bernardino assets, and facility closure costs of \$0.6 million incurred by the Company for rent and maintenance of the San Bernardino facility prior to its disposal. In addition, includes asset impairment losses related to the exits from flexible resealable pouch and nutrition bar operations of \$16.1 million, and consolidation of the Company's roasted snack operations of \$1.3 million. Cash payments in 2017 related to the early buy-outs of the San Bernardino and flexible resealable pouch equipment leases, net of proceeds on the disposal of those assets, as well as on the sale of the nutrition bar equipment. Balance receivable as at December 30, 2017, represents remaining proceeds on the sale of the nutrition bar equipment received on January 3, 2018.

For 2016, represents asset impairment losses of \$11.5 million related to the closures of the San Bernardino and Heuvelton facilities.

**(b) Employee recruitment, retention and termination costs**

Represents third-party recruiting fees incurred to identify and retain new employees; reimbursement of relocation costs for new employees; retention and signing bonuses accrued for certain existing and new

employees; and severance benefits, net of forfeitures of stock-based awards, and legal costs related to employee terminations. Some employee termination costs will be paid out in periods after termination. Retention bonuses will be paid out to employees who remain employed by the Company through specified retention dates. Certain employees will be entitled to pro-rata payouts of their retention bonuses if their employment terminates earlier than their retention payment date.

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**(c) Consulting fees and temporary labor costs**

Represents the cost for third-party consultants and temporary labor engaged to support the design and implementation of the Value Creation Plan. In addition, consulting fees incurred in the third quarter of 2016 were related to external financial and legal advisors engaged to review the Company's operating plan and evaluate a range of strategic and financial actions that the Company could take to maximize shareholder value, which concluded with the strategic partnership with Oaktree.

For the years ended December 30, 2017 and December 31, 2016, costs incurred and charged to expense were recorded in the consolidated statement of operations as follows:

|                                                             | December 30,<br>2017<br>\$ | December 31,<br>2016<br>\$ |
|-------------------------------------------------------------|----------------------------|----------------------------|
| Cost of goods sold <sup>(1)</sup>                           | 3,189                      | -                          |
| Selling, general and administrative expenses <sup>(2)</sup> | 22,894                     | 4,041                      |
| Other expense <sup>(3)</sup>                                | 23,829                     | 14,285                     |
|                                                             | 49,912                     | 18,326                     |

- (1) Inventory write-downs and facility closure costs recorded in cost of goods sold were allocated to the Consumer Products operating segment.
- (2) Consulting fees and temporary labor costs, and employee recruitment, relocation and retention costs recorded in selling, general and administrative expenses were allocated to Corporate Services.
- (3) For the year ended December 30, 2017, asset impairment and employee termination costs recorded in other expense were allocated as follows: Raw Material Sourcing and Supply operating segment - \$2.1 million; Consumer Products operating segment - \$20.6 million; and Corporate Services - \$1.1 million. For the year ended December 31, 2016, asset impairment and employee termination costs recorded in other expense were allocated as follows: Raw Material Sourcing and Supply operating segment - \$1.6 million; Consumer Products operating segment - \$10.6 million; and Corporate Services - \$2.1 million.

**5. Discontinued Operation**

On April 6, 2016, the Company completed the sale of its 66% holding of common shares of Opta Minerals Inc. ( Opta Minerals ) to Speyside Equity Fund I LP for aggregate gross proceeds of \$4.8 million (C\$6.2 million), of which \$3.2 million (C\$4.2 million) was received in cash, and \$1.5 million (C\$2.0 million) was received in the form of a subordinated promissory note bearing interest at 2.0% per annum that will mature on October 6, 2018. The sale of Company's equity interest in Opta Minerals was consistent with its objective of divesting its non-core assets in order to become a pure-play organic and healthy foods company. The Company has no continuing involvement with Opta Minerals.

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The following table reconciles the major components of the results of discontinued operations to the amounts reported in the consolidated statement of operations:

|                                                                            | December 31, 2016 | January 2, 2016 |
|----------------------------------------------------------------------------|-------------------|-----------------|
|                                                                            | \$                | \$              |
| Revenues                                                                   | 24,896            | 113,805         |
| Cost of goods sold                                                         | (22,133)          | (99,256)        |
| Selling, general and administrative expenses                               | (3,024)           | (11,170)        |
| Intangible asset amortization                                              | -                 | (1,987)         |
| Other expense, net <sup>(1)</sup>                                          | (794)             | (15,097)        |
| Foreign exchange gain (loss)                                               | (454)             | 717             |
| Interest expense                                                           | (484)             | (4,389)         |
| Loss before income taxes                                                   | (1,993)           | (17,377)        |
| Gain (loss) on classification as held for sale before income taxes         | 560               | (10,515)        |
| Total pre-tax loss from discontinued operations                            | (1,433)           | (27,892)        |
| Recovery of (provision for) income taxes                                   | 599               | (402)           |
| Loss from discontinued operations                                          | (834)             | (28,294)        |
| Loss from discontinued operations attributable to non-controlling interest | 264               | 8,819           |
| Loss from discontinued operations attributable to SunOpta Inc.             | (570)             | (19,475)        |

- (1) For the years ended December 31, 2016 and January 2, 2016, other expense, net includes charges related to the impairment of long-lived assets of Opta Minerals of \$0.4 million and \$12.4 million, respectively.

**6. Product Recall**

During the second quarter of 2016, the Company announced a voluntary recall of certain roasted sunflower kernel products due to potential contamination with *Listeria monocytogenes* bacteria. The affected sunflower products were produced between May 31, 2015 and April 21, 2016. Estimated losses related to the recall totaled \$47.5 million as at December 30, 2017, compared to \$40.0 million as at December 31, 2016, comprised of estimates for customer losses and direct incremental costs incurred by the Company. The estimates for customer losses reflected the cost of the affected sunflower kernel products returned to or replaced by the Company and the estimated cost to reimburse customers for costs incurred by them related to the recall of their retail products that contain the affected sunflower kernels as an ingredient or component. The incremental costs incurred directly by the Company do not include lost earnings associated with the interruption of production at the Company's roasting facilities, or the costs to put into place corrective and preventive actions at those facilities.

The Company's estimates for customer losses related to the recall are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company's estimates reflect the amount of losses that it determined as at December 30, 2017 to be both probable and reasonably estimable. The Company may need to revise its estimates in subsequent periods as the Company continues to work with its customers and insurance providers to substantiate the claims received to date and any additional claims that may be received. These revisions may occur at any time and may be material.

The Company has general liability and product recall insurance policies with aggregate limits of \$47.0 million under which it expects to recover recall-related costs, less applicable deductibles. The Company recognizes expected

insurance recoveries in the period in which the recoveries are determined to be probable of realization. As at December 30, 2017, the Company had recognized recoveries up to the limit of the coverage available under its insurance policies. Consequently, to the extent any losses are excluded under the insurance policies or additional losses are recognized related to existing or new claims, these excluded or excess losses will be recognized as a charge to future earnings.

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As at December 30, 2017, the Company had settled customer claims and direct costs in the amount of \$40.5 million, which was fully funded under the Company's general liability and product recall insurance policies. As at December 30, 2017, \$7.0 million of the estimated recall-related costs were unsettled and were recorded in accounts payable and accrued liabilities on the consolidated balance sheet. As at December 30, 2017, the Company had received \$44.2 million in advances from its insurance providers. The remaining estimated insurance recovery of \$2.7 million was included in accounts receivable on the consolidated balance sheet as at December 30, 2017.

**7. 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 at December 30, 2017 and December 31, 2016:

|                                                               | December 30, 2017               |         |         |          |
|---------------------------------------------------------------|---------------------------------|---------|---------|----------|
|                                                               | Fair value<br>asset (liability) | Level 1 | Level 2 | Level 3  |
|                                                               | \$                              | \$      | \$      | \$       |
| Commodity futures and forward<br>(a) contracts <sup>(1)</sup> |                                 |         |         |          |
| Unrealized short-term derivative<br>asset                     | 738                             | -       | 738     | -        |
| Unrealized short-term derivative<br>liability                 | (240)                           | (35)    | (205)   | -        |
| Unrealized long-term derivative<br>liability                  | (4)                             | -       | (4)     | -        |
| (b) Inventories carried at market <sup>(2)</sup>              | 3,838                           | -       | 3,838   | -        |
| (c) Forward foreign currency contracts                        |                                 |         |         |          |
| Not designated as hedging<br>instruments <sup>(3)</sup>       | (1,060)                         | -       | (1,060) | -        |
| Designated as a hedging<br>instruments <sup>(4)</sup>         | (435)                           | -       | (435)   | -        |
| (d) Contingent consideration <sup>(5)</sup>                   | (11,320)                        | -       | -       | (11,320) |
| (e) Embedded derivative <sup>(6)</sup>                        | 2,690                           | -       | -       | 2,690    |

|                                                               | December 31, 2016               |         |         |         |
|---------------------------------------------------------------|---------------------------------|---------|---------|---------|
|                                                               | Fair value<br>asset (liability) | Level 1 | Level 2 | Level 3 |
|                                                               | \$                              | \$      | \$      | \$      |
| Commodity futures and forward<br>(a) contracts <sup>(1)</sup> |                                 |         |         |         |
| Unrealized short-term derivative<br>asset                     | 787                             | 43      | 744     | -       |
| Unrealized short-term derivative<br>liability                 | (916)                           | -       | (916)   | -       |
|                                                               | (8)                             | -       | (8)     | -       |

|                                                      |          |   |       |          |
|------------------------------------------------------|----------|---|-------|----------|
| Unrealized long-term derivative liability            |          |   |       |          |
| (b) Inventories carried at market <sup>(2)</sup>     | 8,231    | - | 8,231 | -        |
| (c) Forward foreign currency contracts               |          |   |       |          |
| Not designated as hedging instruments <sup>(3)</sup> | 1,345    | - | 1,345 | -        |
| (d) Contingent consideration <sup>(5)</sup>          | (15,279) | - | -     | (15,279) |
| (e) Embedded derivative <sup>(6)</sup>               | 2,944    | - | -     | 2,944    |

- (1) Unrealized short-term derivative asset was included in prepaid expenses and other current assets, unrealized short-term derivative liability was included in other current liabilities and unrealized long-term derivative liability was included in long-term liabilities on the consolidated balance sheets.
- (2) Inventories carried at market were included in inventories on the consolidated balance sheets.
- (3) Forward foreign currency contracts not designated as a hedge were included in accounts receivable or accounts payable and accrued liabilities on the consolidated balance sheets.
- (4) Forward foreign currency contracts designated as a hedge were included in other assets or other current liabilities on the consolidated balance sheets.

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- (5) Contingent consideration obligations were included in long-term liabilities (including the current portion thereof) on the consolidated balance sheets.
- (6) The embedded derivative was included in other assets (long-term) 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.

These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company's risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains, as well as the prices of cocoa and coffee. These derivative instruments are not designated as hedges for accounting purposes. Gains and losses on changes in fair value of these derivative instruments are included in cost of goods sold on the consolidated statement of operations. For the year ended December 30, 2017, the Company recognized a gain of \$0.6 million (December 31, 2016 gain of \$0.5 million; January 2, 2016 loss of \$0.1 million) related to changes in the fair value of these derivatives.

As at December 30, 2017, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

|                                      | Number of bushels purchased (sold) |          |
|--------------------------------------|------------------------------------|----------|
|                                      | Corn                               | Soybeans |
| Forward commodity purchase contracts | (68)                               | 64       |
| Forward commodity sale contracts     | (447)                              | (837)    |
| Commodity futures contracts          | 245                                | 510      |

In addition, as at December 30, 2017, the Company had open forward contracts to sell 299 lots of cocoa and 3 lots of coffee.

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(b) Inventories carried at market

Grains inventory carried at fair value is determined using quoted market prices from the CBoT. Estimated fair market values for grains inventory quantities at period end are valued using the quoted price on the CBoT adjusted for differences in local markets, and broker or dealer quotes. These assets are placed in level 2 of the fair value hierarchy, as there are observable quoted prices for similar assets in active markets. Gains and losses on commodity grains inventory are included in cost of goods sold on the consolidated statements of operations. As at December 30, 2017, the Company had 280,558 bushels of commodity corn and 254,022 bushels of commodity soybeans in inventories carried at market.

(c) Foreign forward currency contracts

As part of its risk management strategy, the Company enters into forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. For any open forward foreign exchange contracts at period end, the contract rate is compared to the forward rate, and a gain or loss is recorded. These contracts are placed in level 2 of the fair value hierarchy, as the inputs used in making the fair value determination are derived from and are corroborated by observable market data. Certain of these forward foreign exchange contracts may be designated as cash flow hedges for accounting purposes, while other of these contracts represent economic hedges that are not designated as hedging instruments.

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## (i) Not designated as hedging instruments

As at December 30, 2017, the Company had open forward foreign exchange contracts to sell euros to buy U.S. dollars with a notional value of €33.4 million (\$39.2 million), and to sell British pounds to buy euros with a notional value of £0.4 million (€0.4 million). As these contracts were not designated as hedging instruments, gains and losses on changes in the fair value of the derivative instruments are included in foreign exchange loss or gain on the consolidated statement of operations. For the year ended December 30, 2017, the Company recognized a loss of \$2.4 million (December 31, 2016 gain of \$1.0 million; January 2, 2016 loss of \$0.7 million) related to changes in the fair value of these derivatives.

## (ii) Designated as hedging instruments

In 2017, the Company initiated a foreign currency cash flow hedging program with the objective of managing the variability of cash flows associated with a portion of forecasted purchases of raw fruit inventories denominated in Mexican pesos. As at December 30, 2017, the Company had net open forward foreign exchange contracts to sell U.S. dollars to buy Mexican pesos with a notional value of \$15.0 million (M\$292.0 million). As these contracts have been designated as hedging instruments, the effective portion of the gains and losses on changes in the fair value of the derivative instruments are included in other comprehensive earnings and reclassified to cost of goods sold in the same period the hedged transaction affects earnings, which is upon the sale of the inventories. For the year ended December 30, 2017, the Company recognized net unrealized gains in other comprehensive earnings of \$1.8 million related to changes in the fair value of these derivatives, and the Company reclassified from other comprehensive earnings realized gains on these derivatives of \$1.4 million to cost of goods sold. In addition, in 2017, the Company reclassified an unrealized gain of \$0.9 million related to the ineffective portion of the hedge to foreign exchange loss on the consolidated statements of operations. The Company expects to reclassify the \$0.4 million amount of the unrealized loss recorded in accumulated other comprehensive loss as at December 30, 2017, to earnings over the next twelve months.

## (d) Contingent consideration

The fair value measurement of contingent consideration arising from business acquisitions is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows. The following table presents a reconciliation of contingent consideration obligations for the years ended December 30, 2017 and December 31, 2016:

|                                      | December 30, 2017 | December 31, 2016 |
|--------------------------------------|-------------------|-------------------|
|                                      | \$                | \$                |
| Balance, beginning of year           | (15,279)          | (21,010)          |
| Fair value adjustment <sup>(1)</sup> | (371)             | 1,158             |
| Payments <sup>(2)</sup>              | 4,330             | 4,554             |
| Foreign exchange                     | -                 | 19                |
| Balance, end of year                 | (11,320)          | (15,279)          |

- (1) For all periods presented, reflected the accretion for the time value of money, which was included in other income/expense (see note 18). In addition, for the year ended December 31, 2016, included a gain of \$1.7 million on the settlement of the contingent consideration obligation related to Niagara Natural (see note 2).
- (2) For the year ended December 30, 2017, reflected the second payment against the contingent consideration obligation related to Citrusource, and payment of the remaining deferred consideration to a former shareholder of Organic Land Corporation OOD, which was acquired by the Company in December 2012. For the year ended December 31, 2016, reflected the first payment related to Citrusource obligation, and cash settlement of the remaining obligation related to Niagara Natural.

(e) Embedded derivative

On August 5, 2011 and August 29, 2014, the Company invested \$0.5 million and \$0.9 million, respectively, in convertible subordinated notes issued by Enchi Corporation ( Enchi ), a developer of advanced bioconversion products for the renewable fuels industry. The Company's investment includes the value of an accelerated payment option embedded in the notes, which may result in a maximum payout to the Company of \$5.1 million. Due to a lack of level 1 or level 2 observable market quotes for the notes, the Company used a discounted cash flow analysis (income approach) to estimate the original fair value of the embedded derivative based on unobservable level 3 inputs. The Company assesses changes in the fair value of the embedded derivative based on the performance of actual cash flows derived from certain royalty rights owned by Enchi, which are expected to be the primary source of funds available to settle the embedded derivative, relative to the financial forecasts used in the valuation analysis. As at December 30, 2017 and December 31, 2016, the Company determined that the fair value of this embedded derivative was \$2.7 million and \$2.9 million, respectively, based on distributions received from Enchi on the notes up to those dates and on expectations related to the remaining royalty rights.

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**8. Accounts Receivable**

|                                                  | December 30, 2017 | December 31, 2016 |
|--------------------------------------------------|-------------------|-------------------|
|                                                  | \$                | \$                |
| Trade receivables                                | 125,408           | 122,916           |
| Recall-related insurance recoveries (see note 6) | 2,656             | 37,400            |
| Allowance for doubtful accounts                  | (2,912)           | (2,947)           |
|                                                  | 125,152           | 157,369           |

The change in the allowance for doubtful accounts provision for the years ended December 30, 2017 and December 31, 2016 is comprised as follows:

|                                                    | December 30, 2017 | December 31, 2016 |
|----------------------------------------------------|-------------------|-------------------|
|                                                    | \$                | \$                |
| Balance, beginning of year                         | 2,947             | 2,492             |
| Net additions to provision                         | 491               | 1,013             |
| Accounts receivable written off, net of recoveries | (596)             | (536)             |
| Effects of foreign exchange rate differences       | 70                | (22)              |
| Balance, end of year                               | 2,912             | 2,947             |

**9. Inventories**

|                                   | December 30, 2017 | December 31, 2016 |
|-----------------------------------|-------------------|-------------------|
|                                   | \$                | \$                |
| Raw materials and work-in-process | 262,527           | 266,072           |
| Finished goods                    | 92,489            | 101,585           |
| Company-owned grain               | 9,937             | 15,027            |
| Inventory reserve                 | (9,975)           | (14,202)          |
|                                   | 354,978           | 368,482           |

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The change in the inventory reserve for the years ended December 30, 2017 and December 31, 2016 is comprised as follows:

|                                                              | December 30, 2017 | December 31, 2016 |
|--------------------------------------------------------------|-------------------|-------------------|
|                                                              | \$                | \$                |
| Balance, beginning of year                                   | 14,202            | 6,774             |
| Additions to reserve during the year                         | 10,278            | 14,029            |
| Reserves applied and inventories written off during the year | (14,367)          | (6,532)           |
| Effect of foreign exchange rate differences                  | (138)             | (69)              |
| Balance, end of year                                         | 9,975             | 14,202            |

**10. Property, Plant and Equipment**

The major components of property, plant and equipment as at December 30, 2017 and December 31, 2016 were as follows:

|                                | December 30, 2017 |                          |                |
|--------------------------------|-------------------|--------------------------|----------------|
|                                | Cost              | Accumulated depreciation | Net book value |
|                                | \$                | \$                       | \$             |
| Land                           | 7,124             | -                        | 7,124          |
| Buildings                      | 70,383            | 21,784                   | 48,599         |
| Machinery and equipment        | 178,760           | 84,525                   | 94,235         |
| Enterprise software            | 14,829            | 6,651                    | 8,178          |
| Office furniture and equipment | 12,063            | 7,834                    | 4,229          |
| Vehicles                       | 3,609             | 2,350                    | 1,259          |
|                                | 286,768           | 123,144                  | 163,624        |

|                                | December 31, 2016 |                          |                |
|--------------------------------|-------------------|--------------------------|----------------|
|                                | Cost              | Accumulated depreciation | Net book value |
|                                | \$                | \$                       | \$             |
| Land                           | 7,165             | -                        | 7,165          |
| Buildings                      | 68,014            | 19,432                   | 48,582         |
| Machinery and equipment        | 168,120           | 73,914                   | 94,206         |
| Enterprise software            | 10,845            | 4,179                    | 6,666          |
| Office furniture and equipment | 10,191            | 5,930                    | 4,261          |
| Vehicles                       | 3,515             | 2,156                    | 1,359          |
|                                | 267,850           | 105,611                  | 162,239        |

As at December 30, 2017 property, plant and equipment included construction in process assets of \$23.7 million (December 31, 2016 \$13.7 million), which were not being depreciated as they had not yet reached the stage of commercial viability. In addition, as at December 30, 2017, machinery and equipment included equipment under capital leases with a cost of \$11.9 million (December 31, 2016 \$11.9 million) and a net book value of \$5.4 million

(December 31, 2016 \$10.7 million), as well as \$5.0 million (December 31, 2016 \$6.1 million) of spare parts inventory.

Total depreciation expense included in cost of goods sold and selling, general and administrative expense on the consolidated statements of operations related to property, plant and equipment for the year ended December 30, 2017 was \$21.7 million (December 31, 2016 \$22.9 million; January 2, 2016 \$16.1 million).

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**11. Goodwill and Intangible Assets**

|                                                                                                                        | December 30, 2017 | December 31, 2016 |
|------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                                                        | \$                | \$                |
| Goodwill                                                                                                               | 109,533           | 223,611           |
| Intangible assets with a finite life at cost, less accumulated amortization of \$41,036 (December 31, 2016 - \$30,989) | 172,059           | 183,524           |

The following is a summary of changes in goodwill:

|                                    | Global Ingredients | Consumer Products | Total     |
|------------------------------------|--------------------|-------------------|-----------|
|                                    | \$                 | \$                | \$        |
| Balance at January 2, 2016         | 25,990             | 215,700           | 241,690   |
| Goodwill impairment <sup>(1)</sup> | (17,540)           | -                 | (17,540)  |
| Foreign exchange                   | (195)              | (344)             | (539)     |
| Balance at December 31, 2016       | 8,255              | 215,356           | 223,611   |
| Goodwill impairment <sup>(2)</sup> | -                  | (115,000)         | (115,000) |
| Foreign exchange                   | 922                | -                 | 922       |
| Balance at December 30, 2017       | 9,177              | 100,356           | 109,533   |

(1) Based on the results of the annual impairment test performed for the year ended December 31, 2016, the Company determined that the carrying value of the goodwill associated with the Sunflower reporting unit of the Raw Material Sourcing and Supply operating segment exceeded its implied fair value, reflecting lower anticipated sales demand and higher expected production and capital costs as a result of the sunflower recall. As a result, the Company recognized a goodwill impairment charge of \$17.5 million in 2016.

(2) Based on the results of the annual impairment test performed for the year ended December 30, 2017, the Company determined that the carrying value of the Healthy Fruit reporting unit of the Consumer Products reporting unit exceeded its fair value, reflecting lower-than-expected sales and operating performance for frozen fruit since the Sunrise Acquisition, and uncertainty of future sales due to lost customer volumes and declining consumer consumption trends in 2017. As a result, the Company recognized a goodwill impairment charge of \$115.0 million in 2017.

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

The major components of intangible assets as at December 30, 2017 and December 31, 2016 were as follows:

|                               | December 30, 2017 |                          |                |
|-------------------------------|-------------------|--------------------------|----------------|
|                               | Cost              | Accumulated amortization | Net book value |
|                               | \$                | \$                       | \$             |
| Customer relationships        | 211,176           | 39,274                   | 171,902        |
| Patents, trademarks and other | 1,919             | 1,762                    | 157            |
|                               | 213,095           | 41,036                   | 172,059        |

|                               | December 31, 2016 |                          |                |
|-------------------------------|-------------------|--------------------------|----------------|
|                               | Cost              | Accumulated amortization | Net book value |
|                               | \$                | \$                       | \$             |
| Customer relationships        | 212,172           | 28,914                   | 183,258        |
| Patents, trademarks and other | 2,341             | 2,075                    | 266            |
|                               | 214,513           | 30,989                   | 183,524        |

The following is a summary of changes in intangible assets:

|                              | Customer relationships | Patents, trademarks and other | Total    |
|------------------------------|------------------------|-------------------------------|----------|
|                              | \$                     | \$                            | \$       |
| Balance at January 2, 2016   | 194,633                | 375                           | 195,008  |
| Amortization                 | (11,166)               | (116)                         | (11,282) |
| Foreign exchange             | (209)                  | 7                             | (202)    |
| Balance at December 31, 2016 | 183,258                | 266                           | 183,524  |
| Impairment <sup>(1)</sup>    | (456)                  | -                             | (456)    |
| Amortization                 | (11,086)               | (109)                         | (11,195) |
| Foreign exchange             | 186                    | -                             | 186      |
| Balance at December 30, 2017 | 171,902                | 157                           | 172,059  |

- (1) Represents impairment of customer relationship intangible asset related to the exited nutrition bar product lines (see note 4).

The Company estimates that the aggregate future amortization expense associated with finite-life intangible assets in each of the next five fiscal years and thereafter will be as follows:

|      | \$     |
|------|--------|
| 2018 | 11,135 |
| 2019 | 11,021 |
| 2020 | 10,324 |
| 2021 | 10,112 |
| 2022 | 10,112 |

|            |         |
|------------|---------|
| Thereafter | 119,355 |
|            | 172,059 |

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**12. Accounts Payable and Accrued Liabilities**

|                                                             | December 30, 2017 | December 31, 2016 |
|-------------------------------------------------------------|-------------------|-------------------|
|                                                             | \$                | \$                |
| Accounts payable                                            | 94,992            | 89,034            |
| Payroll and commissions                                     | 15,161            | 14,262            |
| Accrued grain liabilities                                   | 15,039            | 15,254            |
| Accrued recall-related costs (see note 6)                   | 6,980             | 39,750            |
| Accrued interest                                            | 5,496             | 5,500             |
| Accrued product recall settlement (see note 18(5))          | 2,250             | -                 |
| Dividends payable on Series A Preferred Stock (see note 14) | 1,700             | 1,590             |
| Other accruals                                              | 19,746            | 8,355             |
|                                                             | 161,364           | 173,745           |

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

|                                                                                                                                  | December 30, 2017 | December 31, 2016 |
|----------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                                                                  | \$                | \$                |
| Bank indebtedness:                                                                                                               |                   |                   |
| Global Credit Facility <sup>(1)</sup>                                                                                            | 230,502           | 199,281           |
| Bulgarian credit facility <sup>(2)</sup>                                                                                         | 3,588             | 2,213             |
|                                                                                                                                  | 234,090           | 201,494           |
| Long-term debt:                                                                                                                  |                   |                   |
| Senior Secured Second Lien Notes, net of unamortized debt issuance costs of \$7,716 (December 31, 2016 - \$8,835) <sup>(3)</sup> | 215,782           | 222,163           |
| Asset-backed term loan <sup>(4)</sup>                                                                                            | 3,600             | -                 |
| Capital lease obligations <sup>(5)</sup>                                                                                         | 5,651             | 7,454             |
| Other                                                                                                                            | 3,000             | 1,470             |
|                                                                                                                                  | 228,033           | 231,087           |
| Less: current portion                                                                                                            | 2,228             | 2,079             |
|                                                                                                                                  | 225,805           | 229,008           |

**(1) Global Credit Facility**

On February 11, 2016, the Company entered into a five-year credit agreement for a senior secured asset-based revolving credit facility with a syndicate of banks in the maximum aggregate principal amount of \$350.0 million, subject to borrowing base capacity (the Global Credit Facility). The Global Credit Facility is used to support the working capital and general corporate needs of the Company's global operations, in addition to funding future strategic initiatives. The Global Credit Facility also includes borrowing capacity available for letters of credit and provides for borrowings on same-day notice, including in the form of swingline loans. Subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, the Company may request to increase the total lending commitments under the Global Credit Facility to a maximum aggregate principal amount not to exceed \$450.0 million. Outstanding principal amounts

under the Global Credit Facility are repayable in full on the maturity date of February 10, 2021.

Individual borrowings under the Global Credit Facility have terms of six months or less and bear interest based on various reference rates, including prime rate and LIBOR plus an applicable margin. The applicable margin in the Global Credit Facility ranges from 1.25% to 1.75% for loans bearing interest based on LIBOR and from 0.25% to 0.75% for loans bearing interest based on the prime rate and, in each case, is set quarterly based on average borrowing availability for the preceding fiscal quarter. As at December 30, 2017, the weighted-average interest rate on the facilities was 3.45%.

On September 19, 2017 (the Effective Date ), the Company entered into an amendment to the Global Credit Facility to add an additional U.S. asset-based credit subfacility of an aggregate principal amount of \$15.0 million (the New U.S. Subfacility ).

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The New U.S. Subfacility was fully drawn on the Effective Date. Amortization payments on the aggregate principal amount of the New U.S. Subfacility are equal to \$2.5 million payable at the end of each fiscal quarter, commencing with the fiscal quarter ending March 31, 2019. Optional prepayment of borrowings under the New U.S. Subfacility are not permitted until the first anniversary of the Effective Date and are subject to certain availability conditions. Borrowings repaid under the New U.S. Subfacility may not be borrowed again.

Borrowings under the New U.S. Subfacility bear interest at a margin over various reference rates. The applicable margin for the New U.S. Subfacility will be set quarterly based on average borrowing availability for the preceding fiscal quarter and will range from 2.00% to 2.50% with respect to base rate and prime rate borrowings and from 3.00% to 3.50% for eurocurrency rate and bankers' acceptance rate borrowings. The initial margin for the New U.S. Subfacility is 2.50% with respect to base rate and prime rate borrowings and 3.50% with respect to eurocurrency rate borrowings.

Obligations under the Global Credit Facility are guaranteed by substantially all of the Company's subsidiaries and, subject to certain exceptions, such obligations are secured by first priority liens on substantially all of the assets of the Company.

The Global Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability to create liens on assets; sell assets and enter into sale and leaseback transactions; pay dividends, prepay junior lien and unsecured indebtedness and make other restricted payments; incur additional indebtedness and make guarantees; make investments, loans or advances, including acquisitions; and engage in mergers or consolidations. The foregoing covenants are subject to certain threshold amounts and exceptions as set forth in the credit agreement.

(2) **Bulgarian credit facility**

On June 28, 2017, a subsidiary of The Organic Corporation B.V. ( "TOC" ), a wholly-owned subsidiary of the Company, extended its revolving credit facility agreement dated May 22, 2013, to provide up to €4.5 million to cover the working capital needs of TOC's Bulgarian operations. The facility is secured by the accounts receivable and inventories of the Bulgarian operations and is fully guaranteed by TOC. Interest accrues under the facility based on EURIBOR plus a margin of 2.75%, and borrowings under the facility are repayable in full on April 30, 2018. As at December 30, 2017, the weighted-average interest rate on the Bulgarian credit facility was 2.75%.

(3) **Senior Secured Second Lien Notes**

On October 20, 2016, SunOpta Foods issued \$231.0 million of 9.5% Senior Secured Second Lien Notes due 2022 (the "Notes" ). The Company incurred \$9.3 million of debt issuance costs related to the Notes, which were recorded as a reduction against the principal amount of the Notes and are being amortized over the six-year term of the Notes. Interest on the Notes is payable semi-annually in arrears on April 15 and October 15 at a rate of 9.5% per annum, commencing on April 15, 2017. The Notes will mature on October 9, 2022. Giving effect to the amortization of debt issuance costs, the effective interest rate on the Notes is approximately 10.4% per annum.

Prior to October 9, 2018, SunOpta Foods may redeem some or all of the Notes at any time and from time to time at a make-whole redemption price set forth in the indenture governing the Notes. On or after October 9, 2018, SunOpta Foods may redeem the Notes, in whole or in part, at any time at the redemption prices equal to 107.125% through October 8, 2019, 104.750% from October 9, 2019 through October 8, 2020, 102.375% from October 9, 2020 through October 8, 2021 and at par thereafter, plus accrued and unpaid interest, if any, to but excluding the date of redemption. In addition, prior to October 9, 2018, SunOpta Foods may, on one or more occasions, redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings at a redemption price equal to 109.500% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to but excluding the date of redemption. At any time prior to October 9, 2018, SunOpta Foods may also redeem, during each twelve-month period beginning on October 20, 2016, up to 10% of the aggregate principal amount of the Notes at a price equal to 103.000% of the aggregate principal amount of the Notes being redeemed, plus accrued and unpaid interest, if any, to but excluding the date of redemption. In the event of a change of control, SunOpta Foods will be required to make an offer to repurchase the Notes at 101.000% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

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On October 19, 2017, the Company repaid \$7.5 million principal amount of the Notes at 103.000%. The premium paid and write-off of a pro-rata portion of debt issuance costs were charged to interest expense on the consolidated statement of operations.

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

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

As at December 30, 2017, the estimated fair value of the outstanding Notes was approximately \$240 million, based on quoted prices of recent over-the-counter transactions (Level 2).

(4) Asset-backed term loan

On December 28, 2017, TOC entered into a €3.0 million asset-backed term loan. The loan is secured by a first priority lien on equipment owned by TOC for a second processing line at its cocoa processing facility in the Netherlands. Interest on this loan accrues at an effective rate of 3.06% and the loan matures on December 28, 2027. Principal and accrued interest is repayable in equal monthly installments. The loan is fully guaranteed by TOC.

(5) Capital lease obligations

The Company leases certain equipment under capital lease agreements. The cost and accumulated depreciation of assets under capital lease are included in machinery and equipment.



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Principal repayments of long-term debt are as follows:

|                                 | \$      |
|---------------------------------|---------|
| 2018                            | 2,228   |
| 2019                            | 2,149   |
| 2020                            | 3,822   |
| 2021                            | 993     |
| 2022                            | 224,530 |
| Thereafter                      | 2,027   |
| Total gross repayments          | 235,749 |
| Unamortized debt issuance costs | (7,716) |
|                                 | 228,033 |

The components of interest expense, net are as follows:

|                                                   | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|---------------------------------------------------|-------------------|-------------------|-----------------|
|                                                   | \$                | \$                | \$              |
| Interest expense                                  | 29,771            | 32,090            | 9,853           |
| Amortization and write-off of debt issuance costs | 2,825             | 11,301            | 5,895           |
| Interest income                                   | (92)              | (116)             | (79)            |
| Interest expense, net                             | 32,504            | 43,275            | 15,669          |

**14. Series A Preferred Stock**

On October 7, 2016 (the Closing Date), the Company and SunOpta Foods entered into a subscription agreement (the Subscription Agreement) with Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (collectively, the Investors). Pursuant to the Subscription Agreement, SunOpta Foods issued an aggregate of 85,000 shares of Preferred Stock to the Investors for consideration in the amount of \$85.0 million. In connection with the issuance of the Preferred Stock, the Company incurred direct and incremental expenses of \$6.0 million, which reduced the carrying value of the Preferred Stock. At any time on or after the fifth anniversary of the Closing Date, SunOpta Foods may redeem all of the Preferred Stock for an amount, per share of Preferred Stock, equal to the value of the liquidation preference at such time. The carrying value of the Preferred Stock is being accreted to the redemption amount of \$85.0 million through charges to retained earnings over the period preceding the fifth anniversary of the Closing Date, which accretion amounted to \$1.0 million and \$0.2 million for the year ended December 30, 2017 and period ended December 31, 2016.

In connection with the Subscription Agreement, the Company agreed to, among other things (i) ensure SunOpta Foods has sufficient funds to pay its obligations under the terms of the Preferred Stock and (ii) grant each holder of Preferred Stock (the Holder) the right to exchange the Preferred Stock for shares of common stock of the Company (the Common Shares). The Preferred Stock is non-participating with the Common Shares in dividends and undistributed earnings of the Company.

The Preferred Stock has a stated value and initial liquidation preference of \$1,000 per share. Cumulative preferred dividends accrue daily on the Preferred Stock at an annualized rate of 8.0% prior to October 5, 2025 and 12.5% thereafter, in each case of the liquidation preference (subject to an increase of 1.0% per quarter, up to a maximum rate of 5.0% per quarter on the occurrence of certain events of non-compliance). Prior to October 5, 2025, SunOpta Foods may pay dividends in cash or elect, in lieu of paying cash, to add the amount that would have been paid to the

liquidation preference. After October 4, 2025, the failure to pay dividends in cash will be an event of non-compliance. The Preferred Stock ranks senior to the shares of common stock of SunOpta Foods with respect to dividend rights and rights on the distribution of assets on any liquidation, winding up or dissolution of the Company or SunOpta Foods. For the year ended December 30, 2017, the Company paid cash dividends on the Preferred Stock of \$6.7 million, and, as at December 30, 2017, the Company had accrued unpaid dividends of \$1.7 million, which were recorded in accounts payable and accrued liabilities on the consolidated balance sheet.

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At any time, the Holders may exchange their shares of Preferred Stock, in whole or in part, into the number of Common Shares equal to, per share of Preferred Stock, the quotient of the liquidation preference divided by \$7.50 (such price, the Exchange Price and such quotient, the Exchange Rate ). As at December 30, 2017, the aggregate shares of Preferred Stock outstanding were exchangeable into 11,333,333 Common Shares. The Exchange Price is subject to certain anti-dilution adjustments, including a weighted-average adjustment for issuances of Common Shares below the Exchange Price, provided that the Exchange Price may not be lower than \$7.00 (subject to adjustment in certain circumstances). SunOpta Foods may cause the Holders to exchange all of the Preferred Stock into a number of Common Shares based on the applicable Exchange Price if (i) fewer than 10% of the shares of Preferred Stock issued on the Closing Date remain outstanding or (ii) on or after the third anniversary of the Closing Date, the average volume-weighted average price of the Common Shares during the then preceding 20 trading day period is greater than 200% of the Exchange Price.

In connection with the Subscription Agreement, the Company issued 11,333,333 Special Shares, Series 1 (the Special Voting Shares ) to the Investors, which entitle the Investors to one vote per Special Voting Share on all matters submitted to a vote of the holders of Common Shares, together as a single class, subject to certain exceptions. Additional Special Voting Shares will be issued, or existing Special Voting Shares will be redeemed, as necessary to ensure that the aggregate number of Special Voting Shares outstanding is equal to the number of shares of Preferred Stock outstanding from time to time multiplied by the Exchange Rate in effect at such time. As at December 30, 2017, 11,333,333 Special Voting Shares were issued and outstanding, which represented an approximate 11.7% voting interest in the Company. The Special Voting Shares are not transferable and the voting rights associated with the Special Voting Shares will terminate upon the transfer of the Preferred Stock to a third party, other than a controlled affiliate of the Investors. The Investors are entitled to designate up to two nominees for election to the Board of Directors of the Company (the Board ) and have the right to designate one individual to attend meetings of the Board as a non-voting observer, subject to the Investors maintaining certain levels of beneficial ownership of Common Shares on an as-exchanged basis. For so long as the Investors beneficially own or control at least 50% of the Preferred Stock issued on the Closing Date, including any corresponding Common Shares into which such Preferred Stock are exchanged, the Investors will be entitled to (i) participation rights with respect to future equity offerings of the Company; and (ii) governance rights, including the right to approve certain actions proposed to be taken by the Company and its subsidiaries.

## **15. Common Shares**

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of special shares without par value.

On September 30, 2015, the Company completed a registered offering of 16,670,000 of Common Shares at a price of \$6.00 per share, for aggregate gross proceeds of \$100.0 million. Underwriting and other issuance costs of \$4.4 million incurred in connection with the issuance of these new Common Shares were recorded as a reduction to the gross proceeds from the offering, net of income taxes of \$1.6 million. The net proceeds from the offering were used by the Company to fund a portion of the purchase price of the Sunrise Acquisition (see note 2).

## **16. Stock-Based Compensation**

### ***Stock Incentive Plan***

On May 28, 2013, the Company's shareholders approved the 2013 Stock Incentive Plan (the 2013 Plan ), which permits the grant of a variety of stock-based awards, including stock options, restricted stock units ( RSUs ) and performance

share units ( PSUs ) to selected employees and directors of the Company. As at December 30, 2017, 3,674,298 securities remained available for issuance under the 2013 Plan.

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016, total stock-based compensation expense amounted to \$5.7 million, \$4.1 million and \$4.4 million, respectively.

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*Stock Options*

Stock options granted to selected employees during the year ended December 30, 2017 and December 31, 2016, vest ratably on each of the first through third anniversaries of the grant date and expire on the tenth anniversary of the grant date. Stock options granted during the year ended January 2, 2016, vest ratably on each of the first through fifth anniversaries of the grant date and expire on the tenth anniversary of the grant date. Stock options granted by the Company contain an exercise price that is equal to the closing market price of the shares on the day prior to the grant date. Any consideration paid by employees or directors on exercise of stock options or purchase of stock is credited to capital stock.

The following table summarizes stock option activity for the year ended December 30, 2017:

|                                | Options     | Weighted-<br>average<br>exercise price | Weighted-<br>average<br>remaining<br>contractual<br>term (years) | Aggregate<br>intrinsic value |
|--------------------------------|-------------|----------------------------------------|------------------------------------------------------------------|------------------------------|
| Outstanding, beginning of year | 4,579,850   | \$ 6.47                                |                                                                  |                              |
| Granted                        | 1,120,406   | 9.29                                   |                                                                  |                              |
| Exercised                      | (827,272)   | 5.34                                   |                                                                  |                              |
| Forfeited                      | (1,260,767) | 6.74                                   |                                                                  |                              |
| Expired                        | (305,489)   | 7.56                                   |                                                                  |                              |
| Outstanding at end of year     | 3,306,728   | \$ 7.51                                | 6.92                                                             | \$ 4,145                     |
| Exercisable, end of year       | 1,157,507   | \$ 7.16                                | 5.12                                                             | \$ 1,615                     |

The following table summarizes non-vested stock option activity during the year ended December 30, 2017:

|                               | Stock options | Weighted-<br>average grant-<br>date fair value |
|-------------------------------|---------------|------------------------------------------------|
| Non-vested, beginning of year | 2,843,676     | \$ 3.06                                        |
| Granted                       | 1,120,406     | 4.12                                           |
| Vested                        | (756,075)     | 3.19                                           |
| Forfeited                     | (1,058,786)   | 3.05                                           |
| Non-vested, end of year       | 2,149,221     | \$ 3.57                                        |

The weighted-average grant-date fair values of all stock options granted in the years ended December 30, 2017, December 31, 2016 and January 2, 2016, were \$4.12, \$1.86 and \$4.37, respectively. The weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the stock options granted in those years were as follows:

|                                                 | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|-------------------------------------------------|-------------------|-------------------|-----------------|
| Grant-date stock price                          | \$ 9.29           | \$ 4.25           | \$ 8.41         |
| Dividend yield <sup>(1)</sup>                   | 0%                | 0%                | 0%              |
| Expected volatility <sup>(2)</sup>              | 42.1%             | 41.7%             | 50.1%           |
| Risk-free interest rate <sup>(3)</sup>          | 2.0%              | 1.6%              | 1.9%            |
| Expected life of options (years) <sup>(4)</sup> | 6.4               | 6.0               | 6.5             |

- (1) Determined based on expected annual dividend yield at the time of grant.
- (2) Determined based on historical volatility of the Company's Common Shares over the expected life of the option.
- (3) Determined based on the yield on U.S. Treasury zero-coupon issues with maturity dates equal to the expected life of the option.

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- (4) Determined using simplified method, as the Company changed the vesting period of its stock option grants from five years to three years in 2016, and, as a result, historical exercise data may not provide a reasonable basis upon which to estimate expected life.

The following table summarizes stock options outstanding and exercisable as at December 30, 2017:

| Exercise price range |         | Outstanding options | Weighted-average contractual life | Weighted-average exercise price |           | Exercisable options | Weighted-average exercise price |
|----------------------|---------|---------------------|-----------------------------------|---------------------------------|-----------|---------------------|---------------------------------|
| Low                  | High    |                     | (years)                           |                                 |           |                     |                                 |
| \$ 3.27              | \$ 5.14 | 664,048             | 6.43                              | \$ 3.41                         | 184,866   | \$ 3.78             |                                 |
| 5.15                 | 7.28    | 636,177             | 6.47                              | 6.01                            | 383,844   | 5.74                |                                 |
| 7.29                 | 9.38    | 704,499             | 6.53                              | 8.00                            | 294,900   | 7.40                |                                 |
| 9.39                 | 9.60    | 706,052             | 9.40                              | 9.50                            | -         | -                   |                                 |
| 9.61                 | 13.86   | 595,952             | 5.46                              | 10.75                           | 293,897   | 10.89               |                                 |
|                      |         | 3,306,728           | 6.92                              | \$ 7.51                         | 1,157,507 | \$ 7.16             |                                 |

Total compensation costs related to non-vested stock option awards not yet recognized as an expense was \$5.3 million as at December 30, 2017, which will be amortized over a weighted-average remaining vesting period of 2.2 years.

*Restricted Stock Units*

For the year ended December 30, 2017, the Company granted 762,710 RSUs to selected employees and directors. RSUs granted to employees vest ratably on each of the first through third anniversaries of the grant date. RSUs granted to directors vest 100% on the first anniversary of the grant date. Each vested RSU will entitle the employee or director to receive one common share of the Company. The weighted-average grant-date fair value of the RSUs was estimated to be \$9.18, based on the stock price of the Common Shares as of the dates of grant.

The following table summarizes non-vested RSU activity during the year ended December 30, 2017:

|                               | RSUs     | Weighted-average grant-date fair value |
|-------------------------------|----------|----------------------------------------|
| Non-vested, beginning of year | 175,860  | \$ 6.10                                |
| Granted                       | 762,710  | 9.18                                   |
| Vested                        | (95,724) | 6.31                                   |
| Forfeited                     | (67,490) | 9.50                                   |
| Non-vested, end of year       | 775,356  | \$ 8.85                                |

Total compensation costs related to non-vested RSU awards not yet recognized as an expense was \$4.9 million as at December 30, 2017, which will be amortized over a weighted-average remaining vesting period of 2.2 years.

*Performance Share Units*

For the year ended December 30, 2017, the Company granted 1,560,535 PSUs to selected employees. The vesting of the PSUs is subject to the satisfaction of certain stock price performance conditions during a three-year performance

period ending May 24, 2020. One-third of the PSUs will vest upon achieving a stock price of \$11.00, one-third will vest upon achieving a stock price of \$14.00, and one-third will vest upon achieving a stock price of \$18.00, in each case for 20 consecutive trading days and subject to the employee's continued employment throughout the performance period. Each vested PSU will entitle the employee to receive one common share of the Company without payment of additional consideration.

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The fair value of the PSUs was estimated using a Monte Carlo valuation model, which simulates the potential outcomes for the Company's stock price performance and determines the payouts that would occur under each scenario. Fair value is based on the average of those results. The grant-date weighted-average fair value of the PSUs was determined to be \$5.64, based on the following inputs to the valuation model:

|                                         |    |       |
|-----------------------------------------|----|-------|
| Grant-date stock price                  | \$ | 9.33  |
| Dividend yield                          |    | 0%    |
| Expected volatility <sup>(1)</sup>      |    | 42.2% |
| Risk-free interest rate <sup>(2)</sup>  |    | 1.5%  |
| Expected life (in years) <sup>(3)</sup> |    | 3.0   |

- (1) Determined based on the historical volatility of the Common Shares over 6.5 years, which is consistent with the volatility assumption for stock options granted to employees.
- (2) Determined based on U.S. Treasury yields with a remaining term equal to the expected life of the PSUs.
- (3) Determined based on vesting for the PSUs.

The following table summarizes non-vested PSU activity during the year ended December 30, 2017:

|                               | PSUs      | Weighted-average grant-date fair value |
|-------------------------------|-----------|----------------------------------------|
| Non-vested, beginning of year | 454,425   | \$ 6.75                                |
| Granted                       | 1,560,535 | 5.64                                   |
| Forfeited or cancelled        | (495,208) | 6.70                                   |
| Non-vested, end of year       | 1,519,752 | \$ 5.68                                |

Total compensation costs related to non-vested PSU awards not yet recognized as an expense was \$6.4 million as at December 30, 2017, which will be amortized over a weighted-average remaining vesting period of 2.4 years.

**CEO Plan**

On February 6, 2017, David Colo was appointed President and CEO of the Company. In connection with his appointment, the Company granted Mr. Colo 473,940 performance-based stock options (the "Special Stock Options") and 277,780 PSUs. In addition, Mr. Colo was granted 100,000 RSUs, of which 50,000 were contingent on Mr. Colo purchasing Common Shares with an aggregate value of \$1.0 million in the open market.

The vesting of the Special Stock Options and PSUs is subject to: (i) Mr. Colo's continued employment with the Company during a three-year performance period ending February 6, 2020; and (ii) the satisfaction of certain stock price performance conditions during the performance period. One-third of the Special Stock Options and PSUs will vest upon achieving a stock price of \$11.00, one-third will vest upon achieving a stock price of \$14.00, and one-third will vest upon achieving a stock price of \$18.00, in each case for 20 consecutive trading days and subject to Mr. Colo's continued employment through the performance period. Each vested Special Stock Option will entitle Mr. Colo to purchase one common share of the Company at an exercise price of \$7.00, which was equal to the closing price of the Common Shares as at February 6, 2017. Each vested PSU will entitle Mr. Colo to receive one common share of the Company without payment of additional consideration.



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The grant-date weighted-average fair values of the Special Stock Options and PSUs were estimated using a Monte Carlo valuation model and determined to be \$1.84 and \$2.79, respectively, based on the following inputs to the valuation model:

|                                         | <b>Special Stock<br/>Options</b> | <b>PSUs</b> |
|-----------------------------------------|----------------------------------|-------------|
| Grant-date stock price                  | \$ 7.00                          | \$ 7.00     |
| Exercise price                          | \$ 7.00                          | NA          |
| Dividend yield                          | 0%                               | 0%          |
| Expected volatility <sup>(1)</sup>      | 42.0%                            | 42.0%       |
| Risk-free interest rate <sup>(2)</sup>  | 2.2%                             | 1.5%        |
| Expected life (in years) <sup>(3)</sup> | 6.5                              | 3.0         |

(1) Determined based on the historical volatility of the Common Shares over the expected life of the Special Stock Options.

(2) Determined based on U.S. Treasury yields with a remaining term equal to the respective expected lives of the Special Stock Options and PSUs.

(3) Determined using the simplified method for the Special Stock Options, based on the mid-point of vesting (three years) and expiration (ten years). Determined based on vesting for the PSUs.

The aggregate grant-date fair value of the Special Stock Options and PSUs awarded to Mr. Colo was \$1.6 million, which will be recognized on a straight-line basis over the requisite three-year performance period.

The RSUs granted to Mr. Colo vest in three equal installments beginning on February 6, 2018. Each vested RSU will entitle Mr. Colo to receive one common share of the Company. The grant-date fair value of the RSUs was estimated to be \$7.00 based on the stock price of the Common Shares as of the date of grant. The aggregate grant-date fair value of the RSUs awarded to Mr. Colo of \$0.7 million will be recognized on a straight-line basis over the three-year vesting period.

***Employee Share Purchase Plan***

The Company maintains an employee share purchase plan whereby employees can purchase common shares through payroll deductions. In the year ended December 30, 2017, the Company's employees purchased 61,796 common shares (December 31, 2016 82,841; January 2, 2016 55,024) for total proceeds of \$0.4 million (December 31, 2016 \$0.4 million; January 2, 2016 \$0.4 million). As at December 30, 2017, 1,112,073 common shares are remaining to be granted under this plan.

**17. Accumulated Other Comprehensive Loss**

Net unrealized losses recorded in accumulated other comprehensive loss were as follows:

|                                       | December 30,<br>2017 | December 31,<br>2016 |
|---------------------------------------|----------------------|----------------------|
|                                       | \$                   | \$                   |
| Currency translation adjustment       | (6,963)              | (13,104)             |
| Cash flow hedges, net of income taxes | (305)                | -                    |
|                                       | (7,268)              | (13,104)             |

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**18. Other Expense (Income), Net**

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

|                                                                              | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|------------------------------------------------------------------------------|-------------------|-------------------|-----------------|
|                                                                              | \$                | \$                | \$              |
| Impairment of long-lived assets <sup>(1)</sup>                               | 18,193            | 13,257            | -               |
| Employee termination costs <sup>(2)</sup>                                    | 5,636             | 4,186             | 2,936           |
| Product withdrawal and recall costs <sup>(3)</sup>                           | 413               | 2,838             | -               |
| Increase (decrease) in fair value of contingent consideration <sup>(4)</sup> | 371               | (1,158)           | 884             |
| Legal settlement <sup>(5)</sup>                                              | (1,024)           | 9,000             | -               |
| Business acquisition costs <sup>(6)</sup>                                    | -                 | 233               | 7,767           |
| Other                                                                        | 71                | (64)              | 564             |
|                                                                              | 23,660            | 28,292            | 12,151          |

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

For the year ended December 30, 2017, represents the impairment of assets associated with the exits from flexible resealable pouch and nutrition bar products lines and operations, and consolidation of roasted snack operations, as well as the early buyout of the San Bernardino equipment leases (see note 4).

For the year ended December 31, 2016, represents the impairment of assets associated with the closures of the San Bernardino and Heuvelton facilities (see note 4). In addition, includes the impairment of leasehold improvements at the Company's Buena Park, California, facility on the consolidation of Company's frozen fruit processing operations following the Sunrise Acquisition.

**(2) Employee termination costs**

For the year ended December 30, 2017, represents severance benefits, net of forfeitures of stock-based awards, and legal costs incurred in connection with the Value Creation Plan (see note 4), including employees affected by the exits from flexible resealable pouch and nutrition bar product lines and operations, and consolidation of roasted snack operations.

For the year ended December 31, 2016, represents contractual severance benefits and previously unrecognized stock-based compensation expense recognized in connection with the departure of Mr. Jacobs as President and CEO in November 2016, as well as costs for employees affected by the closures of the Company's San Bernardino, Heuvelton and Buena Park facilities.

**(3) Product withdrawal and recall costs**

For the year ended December 30, 2017, represents product withdrawal and recall costs that were not eligible for reimbursement under the Company's insurance policies, including certain direct costs related to the sunflower recall.

For the year ended December 31, 2016, represents costs related to the voluntary withdrawal of certain consumer- packaged products due to quality-related issues, as well as certain direct costs and insurance deductibles related to the sunflower recall.

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**(4) Fair value of contingent consideration**

For all years presented, reflects the accretion of contingent consideration obligations to reflect the time value of money. In addition, for the year ended December 31, 2016, includes a gain of \$1.7 million on the settlement of the contingent consideration obligation related to the acquisition of Niagara Natural (see note 2).

**(5) Legal settlement**

In 2016, the Company recorded a charge of \$9.0 million related to the settlement of a product recall dispute with a customer involving certain flexible resealable pouch products manufactured by the Company in 2013. The settlement amount included up to \$4.0 million in rebates payable to the customer over a four-year period. In connection with the exit from the flexible resealable pouch product lines and operations, the Company agreed to an upfront cash settlement of the remaining rebate obligation, resulting in a recovery of \$1.0 million recognized in 2017.

**(6) Business acquisition costs**

Represents transaction costs incurred in connection with the acquisitions of Sunrise, Niagara Natural and Citrusource (see note 2).

**19. Income Taxes**

The recovery of income taxes differs from the amount that would have resulted from applying the combined Canadian federal and provincial statutory income tax rate to loss from continuing operations before income taxes due to the following:

|                                                                      | December 30, 2017<br>\$ | December 31, 2016<br>\$ | January 2, 2016<br>\$ |
|----------------------------------------------------------------------|-------------------------|-------------------------|-----------------------|
| Loss from continuing operations before income taxes                  | (170,397)               | (74,361)                | (6,522)               |
| Canadian statutory rate                                              | 26.5%                   | 26.5%                   | 26.5%                 |
| Income tax recovery at statutory rate                                | (45,155)                | (19,706)                | (1,728)               |
| Impact of changes in enacted tax rates <sup>(1)</sup>                | (8,437)                 | 90                      | (208)                 |
| Foreign tax rate differential                                        | (9,324)                 | (11,329)                | (3,097)               |
| Change in unrecognized tax benefits                                  | (452)                   | (1,268)                 | (855)                 |
| Goodwill impairment loss                                             | 30,475                  | 6,841                   | -                     |
| Impact of stock-based compensation and other non-deductible expenses | 1,590                   | 1,238                   | 1,470                 |
| Change in valuation allowance                                        | 72                      | (267)                   | 4,015                 |
| Impact of non-deductible acquisition expenses                        | -                       | -                       | 910                   |
| Impairment loss on investment                                        | -                       | -                       | (4,029)               |
| Other                                                                | (4,598)                 | 604                     | 132                   |
| Recovery of income taxes                                             | (35,829)                | (23,797)                | (3,390)               |

(1)

For the year ended December 30, 2017, the impact of changes in enacted tax rates reflected the remeasurement of deferred tax balances to reflect new U.S. corporate tax rates enacted in December 2017.

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The components of loss from continuing operations before income taxes are shown below:

|        | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|--------|-------------------|-------------------|-----------------|
|        | \$                | \$                | \$              |
| Canada | (3,286)           | 9,811             | 6,038           |
| U.S.   | (178,033)         | (93,941)          | (20,028)        |
| Other  | 10,922            | 9,769             | 7,468           |
|        | (170,397)         | (74,361)          | (6,522)         |

The components of the provision for (recovery of) income taxes are shown below:

|                                           | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|-------------------------------------------|-------------------|-------------------|-----------------|
|                                           | \$                | \$                | \$              |
| Current income tax provision (recovery):  |                   |                   |                 |
| Canada                                    | (658)             | 3,560             | -               |
| U.S.                                      | (10,346)          | (1,293)           | (1,982)         |
| Other                                     | 3,074             | 3,664             | 2,300           |
|                                           | (7,930)           | 5,931             | 318             |
| Deferred income tax provision (recovery): |                   |                   |                 |
| Canada                                    | 642               | (12)              | 2,484           |
| U.S.                                      | (28,606)          | (29,463)          | (5,971)         |
| Other                                     | 65                | (253)             | (221)           |
|                                           | (27,899)          | (29,728)          | (3,708)         |
| Recovery of income taxes                  | (35,829)          | (23,797)          | (3,390)         |

Deferred income taxes of the Company are comprised of the following:

|                                                                    | December 30, 2017 | December 31, 2016 |
|--------------------------------------------------------------------|-------------------|-------------------|
|                                                                    | \$                | \$                |
| Differences in property, plant and equipment and intangible assets | (51,093)          | (87,833)          |
| Capital and non-capital losses                                     | 22,144            | 31,494            |
| Tax benefit of scientific research expenditures                    | 1,871             | 1,199             |
| Tax benefit of costs incurred during share issuances               | -                 | 944               |
| Inventory basis differences                                        | 5,193             | 5,761             |
| Interest expense limitation (163j)                                 | 10,311            | 3,356             |
| Other accrued reserves                                             | 5,249             | 10,653            |
|                                                                    | (6,325)           | (34,426)          |
| Less: valuation allowance                                          | 9,162             | 9,090             |
| Net deferred income tax liability                                  | (15,487)          | (43,516)          |

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The components of the deferred income tax asset (liability) are shown below:

|        | December 30, 2017 | December 31, 2016 |
|--------|-------------------|-------------------|
|        | \$                | \$                |
| Canada | 362               | 1,045             |
| U.S.   | (14,892)          | (43,668)          |
| Other  | (957)             | (893)             |
|        | (15,487)          | (43,516)          |

The components of the deferred income tax valuation allowance are as follows:

|                                 | December 30, 2017 | December 31, 2016 |
|---------------------------------|-------------------|-------------------|
|                                 | \$                | \$                |
| Balance, beginning of year      | 9,090             | 9,347             |
| Increase in valuation allowance | 72                | (267)             |
| Foreign exchange                | -                 | 10                |
| Balance, end of year            | 9,162             | 9,090             |

As at December 30, 2017, the Company had approximately \$0.4 million (December 31, 2016 \$0.4 million) in U.S. federal scientific research investment tax credits and \$0.9 million (December 31, 2016 \$0.8 million) in U.S. State research and development tax credits, which will expire in varying amounts up to 2029.

As at December 30, 2017, the Company had U.S. federal non-capital loss carry-forwards of approximately \$46.0 million (December 31, 2016 \$51.3 million). In addition, the Company had state loss carry-forwards of approximately \$62.6 million as at December 30, 2017 (December 31, 2016 \$64.2 million). These amounts are available to reduce future federal and state income taxes.

As at December 30, 2017, the Company had Canadian capital losses of approximately \$27.7 million (December 31, 2016 \$29.7 million) for which a full valuation allowance exists. These amounts are available to reduce future capital gains and do not expire.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. Based on this evaluation, as at December 30, 2017, a valuation allowance of \$9.2 million (December 31, 2016 \$9.1 million) had been recorded against certain assets to reduce the net benefit recorded in the consolidated financial statements.

Undistributed earnings of the Company's non-Canadian affiliates and associated companies are considered to be indefinitely reinvested; accordingly, no provision for deferred taxes has been provided thereon.

The Company believes it has adequately examined its tax positions taken or expected to be taken in a tax return; however, amounts asserted by taxing authorities could differ from the Company's positions. Accordingly, additional provisions on federal, provincial, state and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved. A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is presented below:

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|                                            | December 30, 2017 | December 31, 2016 |
|--------------------------------------------|-------------------|-------------------|
|                                            | \$                | \$                |
| Balance, beginning of year                 | 452               | 1,720             |
| Reductions in tax positions of prior years | (452)             | (1,268)           |
| Balance, end of year                       | -                 | 452               |

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The Company's opening unrecognized tax benefits position largely included a possible reduction to prior year losses for U.S. exposures relating to the deductibility of certain interest amount accrued. The amount has become fully statute barred in the U.S. and the liability reduced to zero.

Consistent with its historical financial reporting, the Company has classified interest and penalties related to income tax liabilities, when applicable, as part of interest expense in its consolidated statements of operations, and with the related liability on the consolidated balance sheets.

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's major taxing jurisdictions include Canada (including Ontario), the U.S. (including multiple states), and the Netherlands. The Company's 2010 through 2016 tax years (and any tax year for which available non-capital loss carry-forwards were generated up to the amount of non-capital loss carry-forward) remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes, and the 2010 through 2016 tax years remain subject to examination by the appropriate governmental agencies for Canadian federal tax purposes. There are other ongoing audits in various other jurisdictions that are not considered material to the Company's consolidated financial statements.

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**20. Loss Per Share**

Basic and diluted loss per share were calculated as follows (shares in thousands):

|                                                                                         | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|-----------------------------------------------------------------------------------------|-------------------|-------------------|-----------------|
| <b>Numerator for basic loss per share:</b>                                              |                   |                   |                 |
| Loss from continuing operations, less amounts attributable to non-controlling interests | \$ (135,320)      | \$ (50,618)       | \$ (2,996)      |
| Less: dividends and accretion on Series A Preferred Stock                               | (7,809)           | (1,812)           | -               |
| Loss from continuing operations available to common shareholders                        | (143,129)         | (52,430)          | (2,996)         |
| Loss from discontinued operations attributable to SunOpta Inc.                          | -                 | (570)             | (19,475)        |
| Loss available to common shareholders                                                   | \$ (143,129)      | \$ (53,000)       | \$ (22,471)     |
| <b>Denominator for basic loss per share:</b>                                            |                   |                   |                 |
| Basic weighted-average number of shares outstanding                                     | 86,355            | 85,569            | 72,408          |
| <b>Basic loss per share:</b>                                                            |                   |                   |                 |
| - from continuing operations                                                            | \$ (1.66)         | \$ (0.61)         | \$ (0.04)       |
| - from discontinued operations                                                          | -                 | (0.01)            | (0.27)          |
|                                                                                         | \$ (1.66)         | \$ (0.62)         | \$ (0.31)       |
| <b>Numerator for diluted loss per share:</b>                                            |                   |                   |                 |
| Loss from continuing operations, less amounts attributable to non-controlling interests | \$ (135,320)      | \$ (50,618)       | \$ (2,996)      |
| Less: dividends and accretion on Series A Preferred Stock <sup>(1)</sup>                | (7,809)           | (1,812)           | -               |
| Loss from continuing operations available to common shareholders                        | (143,129)         | (52,430)          | (2,996)         |
| Loss from discontinued operations attributable to SunOpta Inc.                          | -                 | (570)             | (19,475)        |
| Loss available to common shareholders                                                   | \$ (143,129)      | \$ (53,000)       | \$ (22,471)     |
| <b>Denominator for diluted loss per share:</b>                                          |                   |                   |                 |
| Basic weighted-average number of shares outstanding                                     | 86,355            | 85,569            | 72,408          |
| Dilutive effect of the following:                                                       |                   |                   |                 |
| Series A Preferred Stock <sup>(1)</sup>                                                 | -                 | -                 | -               |
| Stock options <sup>(2)</sup>                                                            | -                 | -                 | -               |
| Diluted weighted-average number of shares outstanding                                   | 86,355            | 85,569            | 72,408          |

**Diluted loss per share:**

|                                |    |        |    |        |    |        |
|--------------------------------|----|--------|----|--------|----|--------|
| - from continuing operations   | \$ | (1.66) | \$ | (0.61) | \$ | (0.04) |
| - from discontinued operations |    | -      |    | (0.01) |    | (0.27) |
|                                | \$ | (1.66) | \$ | (0.62) | \$ | (0.31) |

- (1) For the years ended December 30, 2017 and December 31, 2016, it was more dilutive to assume the Preferred Stock was not converted into Common Shares, and, therefore, the numerator of the diluted loss per share calculation was not adjusted to add back the dividends and accretion on the Preferred Stock and the denominator was not adjusted to include 11,333,333 and 2,670,320 Common Shares issuable on an if-converted basis for the years ended December 30, 2017 and December 31, 2016, respectively.

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- (2) For the years ended December 30, 2017, December 31, 2016, and January 2, 2016, stock options to purchase 815,952, 66,166 and 54,316 Common Shares, respectively, were excluded from the calculation of diluted loss per share due to their anti-dilutive effect of reducing the loss per share. In addition, for the years ended December 30, 2017, December 31, 2016 and January 2, 2016, options to purchase 2,540,189, 2,321,448 and 856,492 Common Shares were anti-dilutive because the exercise prices of these options were greater than the average market price.

**21. Supplemental Cash Flow Information**

|                                                                  | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|------------------------------------------------------------------|-------------------|-------------------|-----------------|
|                                                                  | \$                | \$                | \$              |
| Changes in non-cash working capital, net of businesses acquired: |                   |                   |                 |
| Accounts receivable                                              | 35,773            | (39,857)          | 17,404          |
| Inventories                                                      | 27,475            | (16,107)          | (25,732)        |
| Income tax recoverable/payable                                   | (13,515)          | 22,868            | (9,782)         |
| Prepaid expenses and other current assets                        | (11,994)          | (242)             | (2,044)         |
| Accounts payable and accrued liabilities                         | (20,437)          | 23,221            | 15,242          |
| Customer and other deposits                                      | 2,328             | (2,774)           | 1,227           |
|                                                                  | 19,630            | (12,891)          | (3,685)         |
| Cash paid for:                                                   |                   |                   |                 |
| Interest                                                         | 29,683            | 28,651            | 10,496          |
| Income taxes                                                     | 4,150             | 1,781             | 10,526          |

**22. Related Party Transactions**

The following table summarizes transactions between the Company and related parties:

|                                                      | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|------------------------------------------------------|-------------------|-------------------|-----------------|
|                                                      | \$                | \$                | \$              |
| Sales of agronomy products <sup>(1)</sup>            | 1,141             | 488               | 906             |
| Purchases of fruits, grains and seeds <sup>(2)</sup> | 18,487            | 14,867            | 2,340           |
| Sales of coffee beans <sup>(3)</sup>                 | 1,954             | 1,896             | 1,395           |
| Rent paid and other <sup>(4)</sup>                   | 220               | 976               | 1,002           |

- (1) Represents sales of agronomy products to employees at market prices, which are included in revenues on the consolidated statements of operations.

- (2) Represents purchases of raw fruit and fruit processing services at market prices from former shareholders of Opus who remain employed by the Company, as well as purchases of grains and seeds at market prices from employees of the Company, which are included in cost of goods sold on the consolidated statements of operations.

- (3)

Represents the sale of coffee beans at market prices from TOC to a company that is owned by the non-controlling shareholder of Trabocca B.V., a less-than-wholly-owned subsidiary of TOC. These sales are included in revenues on the consolidated statement of operations.

- (4) Includes rental payments at market rates for the lease of production, warehouse and/or office facilities from former owners of acquired businesses who remain or were employed by the Company. These payments are included in cost of goods sold or selling, general and administrative expenses on the consolidated statements of operations.

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### **23. Commitments and Contingencies**

#### ***Employment Matter***

On April 19, 2013, a class-action complaint, in the case titled *De Jesus, et al. v. Frozsun, Inc. d/b/a Frozsun Foods*, was filed against Sunrise Growers, Inc. (then named Frozsun, Inc.) in California Superior Court, Santa Barbara County seeking damages, equitable relief and reasonable attorneys' fees for alleged wage and hour violations. This case includes claims for failure to pay all hours worked, failure to pay overtime wages, meal and rest period violations, waiting-time penalties, improper wage statements and unfair business practices. The putative class includes approximately 10,000 non-exempt hourly employees from Sunrise's production facilities in Santa Maria and Oxnard, California. The parties attended mediation on October 12, 2017 and reached a general agreement to resolve the matter on a class-wide basis. The parties are negotiating the remaining details of the settlement which is subject to court approval. It is anticipated that the parties will seek preliminary approval of the settlement from the court in March 2018. The Company expects to recover the full amount payable under the settlement through insurance coverage and an escrow account established in connection with the Sunrise Acquisition.

#### ***Product Recall***

On November 20, 2017, Treehouse Foods, Inc., several of its related entities, and its insurer filed a lawsuit against the Company in the Circuit Court of Cook County, Illinois titled *Treehouse Foods, Inc. et al. v. SunOpta Grains and Food, Inc.* The Company was served with the Summons and Complaint on January 24, 2018. The plaintiffs allege economic damages resulting from the Company's 2016 voluntary recall of certain roasted sunflower kernel products due to the potential for *Listeria monocytogenes* contamination. The case includes claims for breach of express and implied warranty, negligence, strict liability, and indemnity seeking \$16.2 million in damages. There are no allegations of personal injury. The Company intends to vigorously defend itself against these claims. The Company cannot reasonably predict the outcome of this claim, nor can it estimate the amount of loss, or range of loss, if any, that may result from this claim.

#### ***Other Claims***

In addition, various claims and potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

#### ***Environmental Laws***

The Company believes that, with respect to both its operations and real property, it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its consolidated financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in the use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs.

***Grain Held for Others***

As at December 30, 2017, the Company held grain for the benefit of others in the amount of \$0.4 million (December 31, 2016 \$0.5 million). The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain.

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**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

***Letters of Credit***

The Company has outstanding letters of credit at December 30, 2017 totaling \$9.4 million (December 31, 2016 \$4.3 million).

***Real Property Lease Commitments***

The Company has entered into various leasing arrangements, which have fixed monthly rents that are adjusted annually each year for inflation.

Minimum commitments under operating leases, principally for processing facilities, warehouse and distribution facilities, and equipment for the next five fiscal years and thereafter are as follows:

|            | \$     |
|------------|--------|
| 2018       | 19,048 |
| 2019       | 15,820 |
| 2020       | 13,250 |
| 2021       | 8,902  |
| 2022       | 7,011  |
| Thereafter | 7,868  |
|            | 71,899 |

In the years ended December 30, 2017, December 31, 2016 and January 2, 2016, net minimum rents, including contingent rents and sublease rental income, were \$28.0 million, \$27.9 million and \$21.6 million, respectively.

**24. Segmented Information**

The composition of the Company's reportable segments is as follows:

Global Ingredients aggregates our North American-based Raw Material Sourcing and Supply and European-based International Sourcing and Supply operating segments focused on the procurement and sale of specialty and organic grains and seeds, raw material ingredients, value-added grain- and cocoa-based ingredients, and organic commodities.

Consumer Products consists of three main commercial platforms: Healthy Beverages, Healthy Fruit and Healthy Snacks. Healthy Beverages includes aseptic packaged products including non-dairy beverages, broths and teas; refrigerated premium juices; and shelf-stable juices and functional waters. Healthy Fruit includes individually quick frozen ( IQF ) fruits for retail; IQF and bulk frozen fruit for foodservice; and custom fruit preparations for industrial use. Healthy Snacks is focused on fruit snack offerings, and included flexible resealable pouch and nutrition bar product lines, which were exited in 2017.

In addition, Corporate Services provides a variety of management, financial, information technology, treasury and administration services to each of the Company's operating segments from the Company's headquarters in Mississauga, Ontario and administrative office in Edina, Minnesota.

When reviewing the operating results of the Company's operating segments, management uses segment revenues from external customers and segment operating income/loss to assess performance and allocate resources. Segment operating income/loss excludes other income/expense items and goodwill impairment losses. In addition, interest

expense and income amounts, and provisions for income taxes are not allocated to the operating segments.

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**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

**Segment Revenues and Operating Income**

Reportable segment operating results for the years ended December 30, 2017, December 31, 2016 and January 2, 2016 were as follows:

|                                                     |                             |                            | December 30, 2017  |
|-----------------------------------------------------|-----------------------------|----------------------------|--------------------|
|                                                     | Global<br>Ingredients<br>\$ | Consumer<br>Products<br>\$ | Consolidated<br>\$ |
| Segment revenues from external customers            | 550,527                     | 729,066                    | 1,279,593          |
| Segment operating income                            | 21,951                      | 9,905                      | 31,856             |
| Corporate Services                                  |                             |                            | (31,089)           |
| Other expense, net (see note 18)                    |                             |                            | (23,660)           |
| Goodwill impairment (see note 11)                   |                             |                            | (115,000)          |
| Interest expense, net                               |                             |                            | (32,504)           |
| Loss from continuing operations before income taxes |                             |                            | (170,397)          |

|                                                     |                             |                            | December 31, 2016  |
|-----------------------------------------------------|-----------------------------|----------------------------|--------------------|
|                                                     | Global<br>Ingredients<br>\$ | Consumer<br>Products<br>\$ | Consolidated<br>\$ |
| Segment revenues from external customers            | 574,295                     | 772,436                    | 1,346,731          |
| Segment operating income                            | 26,787                      | 1,206                      | 27,993             |
| Corporate Services                                  |                             |                            | (13,247)           |
| Other expense, net (see note 18)                    |                             |                            | (28,292)           |
| Goodwill impairment (see note 11)                   |                             |                            | (17,540)           |
| Interest expense, net                               |                             |                            | (43,275)           |
| Loss from continuing operations before income taxes |                             |                            | (74,361)           |

|                                                     |                             |                            | January 2, 2016    |
|-----------------------------------------------------|-----------------------------|----------------------------|--------------------|
|                                                     | Global<br>Ingredients<br>\$ | Consumer<br>Products<br>\$ | Consolidated<br>\$ |
| Segment revenues from external customers            | 610,890                     | 534,244                    | 1,145,134          |
| Segment operating income                            | 28,184                      | 3,208                      | 31,392             |
| Corporate Services                                  |                             |                            | (10,094)           |
| Other expense, net (see note 18)                    |                             |                            | (12,151)           |
| Interest expense, net                               |                             |                            | (15,669)           |
| Loss from continuing operations before income taxes |                             |                            | (6,522)            |

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**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

**Segment Assets**

Total assets and goodwill by reportable segment as at December 30, 2017 and December 31, 2016 were as follows:

|                        | December 30, 2017 | December 31, 2016 |
|------------------------|-------------------|-------------------|
|                        | \$                | \$                |
| Segment assets:        |                   |                   |
| Global Ingredients     | 347,971           | 304,149           |
| Consumer Products      | 588,542           | 776,405           |
| Total segment assets   | 936,513           | 1,080,554         |
| Corporate Services     | 45,660            | 49,004            |
| Total assets           | 982,173           | 1,129,558         |
| Segment goodwill:      |                   |                   |
| Global Ingredients     | 9,177             | 8,255             |
| Consumer Products      | 100,356           | 215,356           |
| Total segment goodwill | 109,533           | 223,611           |

**Segment Capital Expenditures, Depreciation and Amortization**

Capital expenditures, depreciation and amortization by reportable segment for the years ended December 30, 2017, December 31, 2016 and January 2, 2016 were as follows:

|                                             | December 30, 2017 | December 31, 2016 | January 2, 2016 |
|---------------------------------------------|-------------------|-------------------|-----------------|
|                                             | \$                | \$                | \$              |
| Segment capital expenditures:               |                   |                   |                 |
| Global Ingredients                          | 9,060             | 4,767             | 5,872           |
| Consumer Products                           | 27,054            | 14,586            | 21,529          |
| Total segment capital expenditures          | 36,114            | 19,353            | 27,401          |
| Corporate Services                          | 5,025             | 3,207             | 3,785           |
| Total capital expenditures                  | 41,139            | 22,560            | 31,186          |
| Segment depreciation and amortization:      |                   |                   |                 |
| Global Ingredients                          | 6,464             | 6,406             | 6,352           |
| Consumer Products                           | 23,666            | 25,532            | 12,814          |
| Total segment depreciation and amortization | 30,130            | 31,938            | 19,166          |
| Corporate Services                          | 2,694             | 2,212             | 1,841           |
| Total depreciation and amortization         | 32,824            | 34,150            | 21,007          |

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**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the years ended December 30, 2017, December 31, 2016 and January 2, 2016

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

***Geographic Information***

The Company's assets, operations and employees are principally located in the U.S., Canada, Europe, Mexico and Ethiopia. Revenues from external customers are attributed to countries based on the location of the customer. Revenues from external customers by geographic area for the years ended December 30, 2017, December 31, 2016 and January 2, 2016 were as follows:

|                                        | December 30, 2017<br>\$ | December 31, 2016<br>\$ | January 2, 2016<br>\$ |
|----------------------------------------|-------------------------|-------------------------|-----------------------|
| Revenues from external customers:      |                         |                         |                       |
| U.S.                                   | 1,001,417               | 1,084,199               | 893,637               |
| Canada                                 | 27,929                  | 30,959                  | 33,291                |
| Europe and other                       | 250,247                 | 231,573                 | 218,206               |
| Total revenues from external customers | 1,279,593               | 1,346,731               | 1,145,134             |

Long-lived assets consist of property, plant and equipment, net of accumulated depreciation, which are attributed to countries based on the physical location of the assets. Long-lived assets by geographic area as at December 30, 2017 and December 31, 2016 were as follows:

|                         | December 30, 2017<br>\$ | December 31, 2016<br>\$ |
|-------------------------|-------------------------|-------------------------|
| Long-lived assets:      |                         |                         |
| U.S.                    | 128,367                 | 133,335                 |
| Canada                  | 3,094                   | 3,346                   |
| Europe and other        | 32,163                  | 25,558                  |
| Total long-lived assets | 163,624                 | 162,239                 |

***Major Customers***

For the years ended December 30, 2017 and December 31, 2016, Costco Wholesale ( Costco ) accounted for approximately 10% and 11%, respectively, of consolidated revenues. Revenues from Costco are included in the Consumer Products operating segment. The Company did not have any customers that exceeded 10% of total revenues for the year ended January 2, 2016.

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**Supplemental financial information (unaudited)**

Summarized below is the Consolidated Statement of Operations for the quarters ended December 30, 2017, September 30, 2017, July 1, 2017 and April 1, 2017, as well as the fiscal 2016 quarterly comparatives.

|                                                    | December 30, 2017<br>\$ | Quarter ended<br>December 31, 2016<br>\$ |
|----------------------------------------------------|-------------------------|------------------------------------------|
| Revenues <sup>(1)</sup>                            | 292,395                 | 297,539                                  |
| Cost of goods sold                                 | 264,124                 | 280,496                                  |
| Gross profit                                       | 28,271                  | 17,043                                   |
| Selling, general and administrative expenses       | 28,094                  | 26,005                                   |
| Intangible asset amortization                      | 2,766                   | 2,810                                    |
| Other expense, net <sup>(2)</sup>                  | 11,638                  | 5,569                                    |
| Goodwill impairment <sup>(3)</sup>                 | 115,000                 | 17,540                                   |
| Foreign exchange loss (gain)                       | 1,268                   | (1,817)                                  |
| Loss before the following                          | (130,495)               | (33,064)                                 |
| Interest expense, net                              | 8,684                   | 8,527                                    |
| Loss before income taxes                           | (139,179)               | (41,591)                                 |
| Recovery of income taxes                           | (21,780)                | (8,165)                                  |
| Loss                                               | (117,399)               | (33,426)                                 |
| Earnings attributable to non-controlling interests | 88                      | 50                                       |
| Loss attributable to SunOpta Inc.                  | (117,487)               | (33,476)                                 |
| Loss per share - basic                             |                         |                                          |
| -from continuing operations                        | (1.38)                  | (0.41)                                   |
| -from discontinued operations                      | -                       | -                                        |
|                                                    | (1.38)                  | (0.41)                                   |
| Loss per share - diluted                           |                         |                                          |
| -from continuing operations                        | (1.38)                  | (0.41)                                   |
| -from discontinued operations                      | -                       | -                                        |
|                                                    | (1.38)                  | (0.41)                                   |

(1) Fourth quarters of 2017 and 2016 included revenues from exited flexible resealable pouch and nutrition bar product lines of \$9.1 million and \$14.4 million, respectively (see note 4 to the consolidated financial statements).

(2) Fourth quarters of 2017 and 2016 included asset impairment charges of \$10.0 million and \$1.2 million, respectively, associated with the Value Creation Plan (see note 4 to the consolidated financial statements).

(3) Fourth quarters of 2017 and 2016 reflected the impairment of goodwill associated with the Frozen Fruit and Sunflower reporting units, respectively (see note 11 to the consolidated financial statements).



**Supplemental financial information (unaudited) continued**

|                                                | September 30, 2017 | Quarter ended<br>October 1, 2016 |
|------------------------------------------------|--------------------|----------------------------------|
|                                                | \$                 | \$                               |
| Revenues <sup>(1)</sup>                        | 320,713            | 348,732                          |
| Cost of goods sold                             | 284,258            | 307,702                          |
| Gross profit                                   | 36,455             | 41,030                           |
| Selling, general and administrative expenses   | 26,102             | 23,915                           |
| Intangible asset amortization                  | 2,817              | 2,826                            |
| Other expense, net <sup>(2)</sup>              | 5,972              | 10,312                           |
| Foreign exchange loss                          | 2,575              | 1,068                            |
| Earnings (loss) before the following           | (1,011)            | 2,909                            |
| Interest expense, net                          | 8,371              | 12,178                           |
| Loss before income taxes                       | (9,382)            | (9,269)                          |
| Recovery of income taxes                       | (3,499)            | (5,411)                          |
| Loss                                           | (5,883)            | (3,858)                          |
| Loss attributable to non-controlling interests | 144                | (503)                            |
| Loss attributable to SunOpta Inc.              | (6,027)            | (3,355)                          |
| Loss per share - basic                         |                    |                                  |
| -from continuing operations                    | (0.09)             | (0.04)                           |
| -from discontinued operations                  | -                  | -                                |
|                                                | (0.09)             | (0.04)                           |
| Loss per share - diluted                       |                    |                                  |
| -from continuing operations                    | (0.09)             | (0.04)                           |
| -from discontinued operations                  | -                  | -                                |
|                                                | (0.09)             | (0.04)                           |

(1) Third quarters of 2017 and 2016 included revenues from exited flexible resealable pouch and nutrition bar product lines of \$13.5 million and \$14.3 million, respectively (see note 4 to the consolidated financial statements).

(2) Third quarters of 2017 and 2016 included asset impairment charges of \$4.5 million and \$10.3 million, respectively, associated with the Value Creation Plan (see note 4 to the consolidated financial statements).

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**Supplemental financial information (unaudited) continued**

|                                                    | July 1, 2017<br>\$ | Quarter ended<br>July 2, 2016<br>\$ |
|----------------------------------------------------|--------------------|-------------------------------------|
| Revenues <sup>(1)</sup>                            | 336,454            | 348,146                             |
| Cost of goods sold                                 | 294,792            | 312,168                             |
| Gross profit                                       | 41,662             | 35,978                              |
| Selling, general and administrative expenses       | 35,039             | 24,489                              |
| Intangible asset amortization                      | 2,809              | 2,824                               |
| Other expense, net                                 | 607                | 8,433                               |
| Foreign exchange loss (gain)                       | 1,195              | (180)                               |
| Earnings before the following                      | 2,012              | 412                                 |
| Interest expense, net                              | 7,695              | 11,548                              |
| Loss before income taxes                           | (5,683)            | (11,136)                            |
| Recovery of income taxes                           | (5,581)            | (7,135)                             |
| Loss                                               | (102)              | (4,001)                             |
| Earnings attributable to non-controlling interests | 306                | 123                                 |
| Loss attributable to SunOpta Inc.                  | (408)              | (4,124)                             |
| Loss per share - basic                             |                    |                                     |
| -from continuing operations                        | (0.03)             | (0.05)                              |
| -from discontinued operations                      | -                  | -                                   |
|                                                    | (0.03)             | (0.05)                              |
| Loss per share - diluted                           |                    |                                     |
| -from continuing operations                        | (0.03)             | (0.05)                              |
| -from discontinued operations                      | -                  | -                                   |
|                                                    | (0.03)             | (0.05)                              |

<sup>(1)</sup> Second quarters of 2017 and 2016 included revenues from exited flexible resealable pouch and nutrition bar product lines of \$15.2 million and \$15.0 million, respectively (see note 4 to the consolidated financial statements).

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**Supplemental financial information (unaudited) continued**

|                                                                                     | April 1, 2017<br>\$ | Quarter ended<br>April 2, 2016<br>\$ |
|-------------------------------------------------------------------------------------|---------------------|--------------------------------------|
| Revenues <sup>(1)</sup>                                                             | 330,031             | 352,314                              |
| Cost of goods sold                                                                  | 291,332             | 320,413                              |
| Gross profit                                                                        | 38,699              | 31,901                               |
| Selling, general and administrative expenses                                        | 38,272              | 24,272                               |
| Intangible asset amortization                                                       | 2,803               | 2,822                                |
| Other expense, net <sup>(2)</sup>                                                   | 5,443               | 3,978                                |
| Foreign exchange loss                                                               | 580                 | 2,172                                |
| Loss from continuing operations before the following                                | (8,399)             | (1,343)                              |
| Interest expense, net                                                               | 7,754               | 11,022                               |
| Loss from continuing operations before income taxes                                 | (16,153)            | (12,365)                             |
| Recovery of income taxes                                                            | (4,969)             | (3,086)                              |
| Loss from continuing operations                                                     | (11,184)            | (9,279)                              |
| Loss from discontinued operations, net of income taxes and non-controlling interest | -                   | (570)                                |
| Loss                                                                                | (11,184)            | (9,849)                              |
| Earnings attributable to non-controlling interests                                  | 214                 | 384                                  |
| Loss attributable to SunOpta Inc.                                                   | (11,398)            | (10,233)                             |
| Loss per share - basic                                                              |                     |                                      |
| -from continuing operations                                                         | (0.16)              | (0.11)                               |
| -from discontinued operations                                                       | -                   | (0.01)                               |
|                                                                                     | (0.16)              | (0.12)                               |
| Loss per share - diluted                                                            |                     |                                      |
| -from continuing operations                                                         | (0.16)              | (0.11)                               |
| -from discontinued operations                                                       | -                   | (0.01)                               |
|                                                                                     | (0.16)              | (0.12)                               |

- (1) First quarters of 2017 and 2016 included revenues from exited flexible resealable pouch and nutrition bar product lines of \$15.4 million and \$15.7 million, respectively (see note 4 to the consolidated financial statements).
- (2) First quarter of 2017 included an asset impairment charge of \$3.7 million associated the Value Creation Plan (see note 4 to the consolidated financial statements). First quarter of 2016 included asset impairment charge of \$1.7 million associated with the consolidation of the Company's frozen fruit processing operations (see note 18 to the consolidated financial statements).

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