Empire Company Limited
Interim Condensed Consolidated Financial Statements
November 1, 2014

CONTENTS

Empire Company Limited
Condensed Consolidated Balance Sheets
As At
Unaudited (in millions of Canadian dollars)

	November 1 2014	May 3 2014	November 2 2013
ASSETS			
Current			
Cash and cash equivalents	**$ 376.5**	$ 429.3	$ 792.5
Receivables	**485.4**	460.5	381.8
Inventories (Note 4)	**1,383.0**	1,310.2	932.5
Prepaid expenses	**107.3**	114.3	150.8
Loans and other receivables	**36.5**	46.4	44.5
Income taxes receivable	**29.5**	39.7	46.9
Assets held for sale (Note 5)	**460.0**	204.8	50.5
Funds held in escrow	**-**	-	2,799.1
	2,878.2	2,605.2	5,198.6
Loans and other receivables	**64.5**	52.5	55.1
Investments	**24.6**	24.8	24.3
Investments, at equity (Note 6)	**582.0**	554.2	417.5
Other assets	**30.6**	30.3	58.9
Property and equipment	**3,536.1**	3,650.7	2,619.1
Investment property	**106.5**	104.5	94.7
Intangibles	**960.9**	950.8	482.2
Goodwill	**3,818.7**	4,134.0	1,271.5
Deferred tax assets	**138.7**	131.0	57.8
	$ 12,140.8	$ 12,238.0	$ 10,279.7
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 2,288.3**	$ 2,246.0	$ 1,764.8
Subscription receipts payable	**-**	-	1,842.5
Notes payable	**-**	-	987.1
Income taxes payable	**30.0**	21.0	29.3
Provisions	**73.6**	82.4	21.3
Long-term debt due within one year (Note 7)	**19.8**	218.0	50.1
	2,411.7	2,567.4	4,695.1
Provisions	**132.1**	140.7	50.9
Long-term debt (Note 7)	**3,103.8**	3,279.9	1,090.4
Other long-term liabilities	**425.0**	389.2	258.9
Deferred tax liabilities	**146.9**	119.3	188.4
	6,219.5	6,496.5	6,283.7
SHAREHOLDERS' EQUITY			
Capital stock	**2,109.4**	2,108.6	319.8
Contributed surplus	**6.2**	5.0	4.9
Retained earnings	**3,756.1**	3,585.9	3,639.8
Accumulated other comprehensive income (loss)	**0.4**	1.0	(6.8)
	5,872.1	5,700.5	3,957.7
Non-controlling interest	**49.2**	41.0	38.3
	5,921.3	5,741.5	3,996.0
	$ 12,140.8	$ 12,238.0	$ 10,279.7

See accompanying notes to the unaudited interim condensed consolidated financial statements.

On Behalf of the Board

(signed) *"Rob Dexter"*
Director

(signed) *"Marc Poulin"*
Director

Empire Company Limited
Condensed Consolidated Statements of Earnings
Unaudited (in millions of Canadian dollars, except per share amounts)

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Sales	**$ 5,995.1**	$ 4,414.3	**$ 12,217.8**	$ 9,009.6
Other income (Note 8)	**17.5**	16.2	**22.8**	25.5
Share of earnings from investments, at equity	**20.5**	13.6	**36.0**	23.6
Operating expenses				
Cost of sales	**4,514.4**	3,420.3	**9,191.3**	6,976.4
Selling and administrative expenses	**1,314.5**	917.4	**2,661.5**	1,842.0
Operating income	**204.2**	106.4	**423.8**	240.3
Finance costs, net (Note 9)	**41.0**	21.1	**84.8**	35.9
Earnings before income taxes	**163.2**	85.3	**339.0**	204.4
Income taxes	**41.2**	22.4	**85.6**	51.7
Net earnings from continuing operations	**122.0**	62.9	**253.4**	152.7
Net earnings from discontinued operations (Note 10)	**-**	108.7	**-**	91.1
Net earnings	**$ 122.0**	$ 171.6	**$ 253.4**	$ 243.8
Earnings for the period attributable to:				
Non-controlling interest	**$ 5.1**	$ 2.4	**$ 13.4**	$ 9.6
Owners of the parent				
From continuing operations	**116.9**	60.5	**240.0**	143.1
From discontinued operations	**-**	108.7	**-**	91.1
	$ 122.0	$ 171.6	**$ 253.4**	$ 243.8
Earnings per share from continuing and discontinued operations (Note 11)				
Basic				
From continuing operations	**$ 1.27**	$ 0.89	**$ 2.60**	$ 2.11
From discontinued operations	**-**	1.60	**-**	1.34
Total	**$ 1.27**	$ 2.49	**$ 2.60**	$ 3.45
Diluted				
From continuing operations	**$ 1.27**	$ 0.89	**$ 2.60**	$ 2.10
From discontinued operations	**-**	1.59	**-**	1.34
Total	**$ 1.27**	$ 2.48	**$ 2.60**	$ 3.44
Weighted average number of common shares outstanding, in millions (Note 11)				
Basic	**92.3**	68.0	**92.3**	68.0
Diluted	**92.3**	68.2	**92.4**	68.1

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Empire Company Limited
Condensed Consolidated Statements of Comprehensive Income
Unaudited (in millions of Canadian dollars)

	13 Weeks Ended		*26 Weeks Ended*	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Net earnings	**$ 122.0**	$ 171.6	**$ 253.4**	$ 243.8
Other comprehensive income				
Items that will be reclassified subsequently to net earnings				
Unrealized (losses) gains on derivatives designated as cash flow hedges (net of taxes of $0.3 and $0.8 (2013 - $ nil and $(0.1)))	**(0.8)**	0.1	**(2.1)**	0.3
Reclassification of losses on derivatives designated as cash flow hedges to earnings (net of taxes of $(0.1) and $(0.1) (2013 - $ nil and $ nil))	**0.1**	-	**0.2**	-
Unrealized losses on available for sale financial assets (net of taxes of $ nil and $ nil (2013 - $ nil and $0.1))	**(0.1)**	-	**-**	(0.6)
Share of other comprehensive income of investments, at equity (net of taxes of $(0.2) and $(0.2) (2013 - $(0.1) and $(0.2)))	**0.9**	0.3	**1.1**	0.7
Exchange differences on translation of foreign operations	**2.6**	(0.3)	**0.2**	0.9
Items that will not be reclassified subsequently to net earnings				
Actuarial gains (losses) on defined benefit plans (net of taxes of $(0.2) and $7.2 (2013 - $(1.7) and $(13.4)))	**0.9**	4.8	**(19.9)**	37.0
Total comprehensive income	**$ 125.6**	$ 176.5	**$ 232.9**	$ 282.1
Total comprehensive income for the period attributable to:				
Non-controlling interest	**$ 5.1**	$ 2.4	**$ 13.4**	$ 9.6
Owners of the parent	**120.5**	174.1	**219.5**	272.5
	$ 125.6	$ 176.5	**$ 232.9**	$ 282.1
Total comprehensive income attributable to owners of the parent arises from:				
Continuing operations	**$ 120.5**	$ 65.4	**$ 219.5**	$ 181.4
Discontinued operations (Note 10)	**-**	108.7	**-**	91.1
	$ 120.5	$ 174.1	**$ 219.5**	$ 272.5

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Empire Company Limited
Condensed Consolidated Statements of Changes in Shareholders' Equity
Unaudited (in millions of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Attributable to Parent	Non-controlling Interest	Total Equity
Balance at May 4, 2013	$ 319.3	$ 6.7	$ (8.1)	$ 3,406.9	$ 3,724.8	$ 31.3	$ 3,756.1
Dividends declared on common shares	-	-	-	(35.3)	(35.3)	-	(35.3)
Employee share options	0.5	(1.8)	-	(3.0)	(4.3)	-	(4.3)
Capital transactions with structured entities	-	-	-	-	-	(2.6)	(2.6)
Transactions with owners	0.5	(1.8)	-	(38.3)	(39.6)	(2.6)	(42.2)
Net earnings	-	-	-	234.2	234.2	9.6	243.8
Other comprehensive income							
Unrealized gains on derivatives designated as cash flow hedges	-	-	0.3	-	0.3	-	0.3
Unrealized losses on available for sale financial assets	-	-	(0.6)	-	(0.6)	-	(0.6)
Actuarial gains on defined benefit plans	-	-	-	37.0	37.0	-	37.0
Share of other comprehensive income of investments, at equity	-	-	0.7	-	0.7	-	0.7
Exchange differences on translation of foreign operations	-	-	0.9	-	0.9	-	0.9
Total comprehensive income for the period	-	-	1.3	271.2	272.5	9.6	282.1
Balance at November 2, 2013	$ 319.8	$ 4.9	$ (6.8)	$ 3,639.8	$ 3,957.7	$ 38.3	$ 3,996.0
Balance at May 3, 2014	**$ 2,108.6**	**$ 5.0**	**$ 1.0**	**$ 3,585.9**	**$ 5,700.5**	**$ 41.0**	**$ 5,741.5**
Dividends declared on common shares	**-**	**-**	**-**	**(49.9)**	**(49.9)**	**-**	**(49.9)**
Employee share options	**0.8**	**1.2**	**-**	**-**	**2.0**	**-**	**2.0**
Capital transactions with structured entities	**-**	**-**	**-**	**-**	**-**	**(5.2)**	**(5.2)**
Transactions with owners	**0.8**	**1.2**	**-**	**(49.9)**	**(47.9)**	**(5.2)**	**(53.1)**
Net earnings	**-**	**-**	**-**	**240.0**	**240.0**	**13.4**	**253.4**
Other comprehensive income							
Unrealized losses on derivatives designated as cash flow hedges	**-**	**-**	**(2.1)**	**-**	**(2.1)**	**-**	**(2.1)**
Reclassification of losses on derivatives designated as cash flow hedges to earnings	**-**	**-**	**0.2**	**-**	**0.2**	**-**	**0.2**
Actuarial losses on defined benefit plans	**-**	**-**	**-**	**(19.9)**	**(19.9)**	**-**	**(19.9)**
Share of other comprehensive income of investments, at equity	**-**	**-**	**1.1**	**-**	**1.1**	**-**	**1.1**
Exchange differences on translation of foreign operations	**-**	**-**	**0.2**	**-**	**0.2**	**-**	**0.2**
Total comprehensive income for the period	**-**	**-**	**(0.6)**	**220.1**	**219.5**	**13.4**	**232.9**
Balance at November 1, 2014	**$ 2,109.4**	**$ 6.2**	**$ 0.4**	**$ 3,756.1**	**$ 5,872.1**	**$ 49.2**	**$ 5,921.3**

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Empire Company Limited **Condensed Consolidated Statements of Cash Flows** **Unaudited (in millions of Canadian dollars)**	*13 Weeks Ended* **November 1 2014**	 **November 2 2013**	*26 Weeks Ended* **November 1 2014**	 **November 2 2013**
Operations				
Net earnings	**$ 122.0**	$ 171.6	**$ 253.4**	$ 243.8
Adjustments for:				
Depreciation	**99.3**	77.9	**200.2**	157.3
Income taxes (Note 10)	**41.2**	43.9	**85.6**	67.7
Finance costs, net (Note 9 and 10)	**41.0**	21.3	**84.8**	36.4
Amortization of intangibles	**20.8**	12.8	**43.0**	25.3
Gain on disposal of assets (Note 8 and 10)	**(9.5)**	(133.3)	**(7.2)**	(133.2)
Impairment of non-financial assets, net	**(1.5)**	(7.3)	**(1.4)**	(6.8)
Amortization of deferred items	**3.5**	0.3	**6.6**	0.7
Equity in earnings of other entities, net of distributions received	**4.1**	2.4	**16.1**	12.6
Employee future benefits obligation	**1.3**	0.7	**2.7**	1.3
Increase in long-term lease obligation	**2.6**	0.4	**4.2**	0.3
Decrease in long-term provisions	**(13.7)**	(1.7)	**(13.7)**	(3.3)
Stock option plan	**1.3**	2.5	**2.0**	2.6
Losses recognized on remeasurement of assets and restructuring costs of discontinued operations (Note 10)	**-**	4.9	**-**	29.2
Net change in non-cash working capital	**(101.7)**	(152.7)	**(69.1)**	(108.6)
Income taxes paid, net	**(29.6)**	(32.9)	**(48.1)**	(146.5)
Cash flows from operating activities	**181.1**	10.8	**559.1**	178.8
Investment				
Net increase in investments	**-**	(2.3)	**(40.0)**	(1.6)
Property, equipment and investment property purchases	**(86.3)**	(112.3)	**(192.1)**	(220.5)
Proceeds on disposal of property, equipment and investment property	**45.2**	271.1	**165.0**	279.5
Additions to intangibles	**(9.0)**	(10.3)	**(21.6)**	(17.9)
Loans and other receivables	**(5.7)**	10.9	**(2.1)**	20.3
Increase in funds held in escrow	**-**	(987.1)	**-**	(987.1)
Other assets and other long-term liabilities	**(0.1)**	(12.3)	**(3.1)**	(16.8)
Proceeds on sale of asset backed commercial paper	**-**	26.0	**-**	26.0
Business acquisitions (Note 13)	**(5.0)**	(6.4)	**(6.3)**	(12.3)
Interest received	**0.2**	3.0	**0.7**	3.5
Non-controlling interest	**(1.8)**	-	**(5.2)**	(2.6)
Cash flows used in investing activities	**(62.5)**	(819.7)	**(104.7)**	(929.5)
Financing				
Decrease in bank indebtedness	**-**	(3.0)	**-**	(6.0)
Issue of long-term debt (Note 7)	**15.0**	238.9	**368.0**	259.7
Deferred debt financing costs (Note 7)	**-**	-	**(0.9)**	-
Repayment of long-term debt	**(73.6)**	(46.8)	**(758.0)**	(85.3)
Stock option purchases	**-**	(6.6)	**-**	(6.6)
Interest paid	**(48.7)**	(17.8)	**(66.4)**	(25.6)
Issue of notes payable	**-**	999.8	**-**	999.8
Notes payable deferred financing costs	**-**	(12.7)	**-**	(12.7)
Dividends paid, common shares	**(25.0)**	(17.6)	**(49.9)**	(35.3)
Cash flows (used in) from financing activities	**(132.3)**	1,134.2	**(507.2)**	1,088.0
(Decrease) increase in cash and cash equivalents	**(13.7)**	325.3	**(52.8)**	337.3
Cash and cash equivalents, beginning of period	**390.2**	466.7	**429.3**	455.2
Total cash and cash equivalents, end of period	**376.5**	792.0	**376.5**	792.5
Cash related to disposal groups classified as held for sale	**-**	(0.5)	**-**	-
Cash and cash equivalents, end of period	**$ 376.5**	$ 792.5	**$ 376.5**	$ 792.5

See accompanying notes to the unaudited interim condensed consolidated financial statements.

1. Reporting entity

Empire Company Limited ("Empire" or the "Company") is a Canadian company whose key businesses include food retailing and related real estate. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The unaudited interim condensed consolidated financial statements for the period ended November 1, 2014 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence are accounted for using the equity method. The Company's food retailing business is conducted in five operating segments: Sobeys West, Sobeys Ontario, Sobeys Quebec, Sobeys Atlantic, and Lawtons. These operating segments have been aggregated into one reportable segment, "Food retailing", as they all share similar economic characteristics. The Company's reportable segments include Food retailing and Investments and other operations. The Company's food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's third quarter. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

2. Basis of preparation

Statement of compliance
The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosures normally included in annual consolidated financial statements have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended May 3, 2014.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on December 12, 2014.

Basis of measurement
The unaudited interim condensed consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: financial instruments classified as fair value through profit and loss ("FVTPL"), financial instruments classified as available for sale and cash settled stock-based compensation plans. Assets held for sale are valued at the lower of their carrying amount and fair value less costs to sell.

Use of estimates and judgments
The preparation of the unaudited interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The use of estimates, judgments and assumptions are all interrelated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimates, judgments and assumptions that could have a significant impact on the amounts recognized in the unaudited interim condensed consolidated financial statements are summarized in the Company's annual consolidated financial statements for the year ended May 3, 2014 and remain unchanged for the period ended November 1, 2014.

3. Summary of significant accounting policies

With the exception of the following amendments, these unaudited interim condensed consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 3, 2014.

(a) Accounting standards and policies adopted during fiscal 2015

(i) Financial instruments: asset and liability offsetting

In December 2011, the IASB amended IAS 32, "Financial Instruments: Presentation", to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The amendments became effective in the first quarter of 2015 and had no significant impact on the Company's financial results and disclosures.

(ii) Levies

In May 2013, the IASB issued IFRIC 21, "Levies", which is an interpretation of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, "Income Taxes" and fines or other penalties imposed for breaches of legislation. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation became effective in the first quarter of 2015 and it had no significant impact on the Company's financial results.

(iii) Impairment of assets

In May 2013, the IASB amended IAS 36, "Impairment of Assets", to clarify the disclosure requirements for recoverable amounts for the assets or cash generating units for which an impairment loss has been recognized or reversed during the period. The amendments became effective in the first quarter of 2015 and had no significant impact on the Company's financial results and disclosures.

(b) Future accounting policies

(i) Financial instruments

In July 2014, the IASB issued the final version of International Financial Reporting Standard ("IFRS") 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establishes an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(ii) Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related Interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2017. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time.

The Company is currently evaluating the impact of the new standards on its consolidated financial statements.

4. Inventories

The cost of inventories (including those from discontinued operations) recognized as an expense during the 13 and 26 weeks ended November 1, 2014 was $4,514.4 and $9,191.3 respectively (November 2, 2013 - $3,427.4 and $6,989.9). The Company has recorded $8.0 (November 2, 2013 - $8.7) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at November 1, 2014. There were no reversals of inventories written down previously (November 2, 2013 - $ nil).

5. Assets held for sale

As a condition of the regulatory clearance from the Competition Bureau for Sobeys' acquisition in November 2013 of substantially all of the assets and select liabilities of Canada Safeway ULC (the "Canada Safeway acquisition"), the Company was required to divest 23 retail stores. In addition to the required divestitures, the Company agreed to sell an additional seven stores in British Columbia comprised of both Safeway and Sobeys locations.

(in millions of Canadian dollars, except per share amounts)

During fiscal 2014, the Company divested 19 of the retail stores. The remaining 11 retail stores were divested during the first quarter of fiscal 2015 for cash proceeds of $111.3. All proceeds were used to repay bank borrowings.

On July 8, 2014, Sobeys announced that it entered into an agreement with Agropur Cooperative to sell four Safeway dairy manufacturing facilities. In addition, long-term milk, yogurt and ice cream supply agreements will come into effect upon transfer of the facilities to Agropur Cooperative. The sales are expected to occur during the Company's third and fourth quarters of fiscal 2015. Total proceeds from the transaction will be approximately $356.1, and will be used to repay bank borrowings.

Subsequent to the close of the second quarter ended November 1, 2014, Sobeys entered into an agreement with Canada Bread Company, Limited to sell two bread manufacturing facilities. The sales are expected to occur during the Company's fourth quarter of fiscal 2015. Total proceeds from the transaction will be approximately $32.0.

Property and equipment of $65.0, intangibles of $15.8 and goodwill of approximately $250.0 for the manufacturing facilities discussed above, as well as additional manufacturing facilities and equipment expected to be sold have been included in assets held for sale as at November 1, 2014.

Subsequent to close of the second quarter ended November 1, 2014, Sobeys sold and leased back eight properties from Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which Empire has 41.5 percent ownership. Assets of $96.9 have been included in assets held for sale as at November 1, 2014 for these properties.

6. Investments, at equity

The carrying values of the investments, at equity are as follows:

	November 1 2014	November 2 2013
Investment in associates		
Crombie REIT	**$ 369.4**	$ 195.1
Canadian real estate partnerships	**140.7**	143.3
U.S. real estate partnerships	**62.2**	69.3
Investment in joint ventures		
Canadian Digital Cinema Partnership ("CDCP")	**9.7**	9.8
Total	**$ 582.0**	$ 417.5

The fair values of the investments based on a stock exchange are as follows:

	November 1 2014	November 2 2013
Crombie REIT	**$ 708.0**	$ 527.1

The Canadian and U.S. real estate partnerships and CDCP are not publicly listed on a stock exchange and hence published price quotes are not available.

7. Long-term debt

On November 4, 2013, the Company extended the term of its credit facilities to a maturity date of November 4, 2017. On June 6, 2014, an amendment was made to the credit facility to reduce the amount available from $450.0 to $250.0.

Pursuant to an agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of $1,825.0; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of $1,327.9; and a revolving term credit facility (the "RT Facility") in the amount of $450.0.

(in millions of Canadian dollars, except per share amounts)

On November 4, 2013, the RT Facility replaced Sobeys' previous unsecured revolving term credit facility of $450.0, the Acquisition Facility was fully drawn for $1,825.0 and the Bridge Facility was drawn for $200.0 in order to partially finance the Canada Safeway acquisition. As of November 1, 2014, the outstanding amount of the Acquisition Facility was $975.0, the Bridge Facility was fully repaid and matured, and Sobeys had issued $55.4 in letters of credit against the RT Facility (May 3, 2014 - $79.0). Interest payable on the Acquisition and RT Facilities fluctuates with changes in the bankers' acceptance rate or Canadian prime rate, and both facilities mature on November 4, 2017.

On July 14, 2014, Sobeys completed a private placement of $300.0 aggregate principal amount of floating rate senior unsecured notes, due July 14, 2016. The senior unsecured notes bear an interest rate equal to the three-month bankers' acceptance rate plus 63 basis points, to be set quarterly. The net proceeds were used to repay outstanding debt on the Acquisition Facility. Deferred financing fees in the amount of $0.9 were incurred on the draw down of the senior unsecured notes and have been offset against long term debt amounts for presentation purposes.

8. Other income

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Gain on disposal of assets	**$ 9.4**	$ 2.8	**$ 7.1**	$ 2.7
Lease revenue from owned property	**7.5**	8.5	**14.9**	17.1
Investment income	**0.5**	0.5	**0.7**	1.3
Dilution gains	**0.1**	4.4	**0.1**	4.4
Total	**$ 17.5**	$ 16.2	**$ 22.8**	$ 25.5

9. Finance costs, net

Finance income and finance costs are reported on a net basis in the condensed consolidated statements of earnings.

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Finance income				
Interest income from cash and cash equivalents	**$ 0.2**	$ 7.7	**$ 0.7**	$ 8.2
Gain on disposal of financial assets	**-**	1.2	**-**	1.2
Total finance income	**0.2**	8.9	**0.7**	9.4
Finance costs				
Interest expense on financial liabilities measured at amortized cost	**35.6**	27.1	**74.3**	39.6
Fair value (gains) losses on forward contracts	**(0.2)**	0.2	**(0.2)**	0.5
Losses on cash flow hedges reclassified from other comprehensive income	**0.2**	-	**0.3**	-
Fair value losses on cash flow hedges	**-**	0.1	**-**	0.1
Net pension finance costs	**3.1**	1.8	**6.2**	3.7
Accretion expense on provisions	**2.5**	0.8	**4.9**	1.4
Total finance costs	**41.2**	30.0	**85.5**	45.3
Finance costs, net	**$ 41.0**	$ 21.1	**$ 84.8**	$ 35.9

(in millions of Canadian dollars, except per share amounts)

10. Discontinued operations

During fiscal 2014, Empire Theatres completed its asset sales transactions with two unrelated parties. An analysis of the operating results of the discontinued operations, and results recognized as a result of remeasurement of the disposal groups, sale of the disposal groups and recognition of restructuring costs is as follows:

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Sales	**$ -**	$ 71.9	**$ -**	$ 126.9
Expenses, including finance costs of $ nil and $ nil (November 2, 2013 - $0.2 and $0.5)	**-**	62.9	**-**	116.7
Earnings before income taxes of discontinued operations	**-**	9.0	**-**	10.2
Income taxes	**-**	2.0	**-**	2.5
Net earnings of discontinued operations	**-**	7.0	**-**	7.7
Loss recognized on remeasurement of assets of disposal groups to fair value less cost to sell, net of tax of $ nil and $ nil (November 2, 2013 - $1.3 and $5.3)	**-**	(3.9)	**-**	(16.2)
Gain on disposal of assets, net of tax of $ nil and $ nil (November 2, 2013 - $20.8 and $20.8)	**-**	105.3	**-**	105.3
Loss from recognition of restructuring costs, net of tax of $ nil and $ nil (November 2, 2013 - $ nil and $2.0)	**-**	0.3	**-**	(5.7)
Net gain from remeasurement of assets, disposal of assets and from restructuring costs	**-**	101.7	**-**	83.4
Net earnings from discontinued operations	**$ -**	$ 108.7	**$ -**	$ 91.1

11. Earnings per share

The weighted average number of outstanding shares for the 13 and 26 weeks ended November 1, 2014 used for basic earnings per share amounted to 92,330,561 and 92,326,108 (November 2, 2013 - 67,970,759 and 67,959,635) shares.

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Weighted average number of shares used in basic earnings per share	**92,330,561**	67,970,759	**92,326,108**	67,959,635
Shares deemed to be issued for no consideration in respect of stock-based payments	**3,761**	191,057	**28,296**	184,193
Weighted average number of shares used in diluted earnings per share	**92,334,322**	68,161,816	**92,354,404**	68,143,828

12. Segmented information

The Board of Directors has determined that the primary segmental reporting format is by business segment, based on the Company's management and internal reporting structure. The Company operates principally in two business segments: food retailing and investments and other operations. The food segment consists of distribution of food products in Canada. Inter-segment transactions are carried out at market prices.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(in millions of Canadian dollars, except per share amounts)

Each of these operating segments is managed separately as each of these segments requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measurement policies the Company uses for segment reporting under IFRS 8, "Operating Segments", are the same as those used in its consolidated financial statements.

No asymmetrical allocations have been applied between segments.

The sales and operating income generated by each of the group's business segments are summarized as follows:

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Segmented sales				
Food retailing	**$ 5,995.1**	$ 4,416.8	**$ 12,217.8**	$ 9,011.7
Investments and other operations	**-**	0.8	**-**	4.2
	5,995.1	4,417.6	**12,217.8**	9,015.9
Sales to discontinued operations	**-**	3.3	**-**	6.3
Total	**$ 5,995.1**	$ 4,414.3	**$ 12,217.8**	$ 9,009.6

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Segmented operating income				
Food retailing	**$ 181.6**	$ 99.8	**$ 387.8**	$ 226.8
Investments and other operations				
Crombie REIT	**9.0**	5.4	**16.3**	12.1
Real estate partnerships	**11.4**	8.0	**19.4**	11.1
Other operations, net of corporate expenses	**2.2**	(6.8)	**0.3**	(9.7)
	22.6	6.6	**36.0**	13.5
Total	**$ 204.2**	$ 106.4	**$ 423.8**	$ 240.3

	November 1 2014	**November 2 2013**
Total assets by segment		
Food retailing	**$ 11,425.7**	$ 7,638.1
Investments and other operations (including discontinued operations)	**715.1**	2,641.6
	$ 12,140.8	$ 10,279.7

Segment operating income can be reconciled to group profit before discontinued operations as follows:

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Total operating income	**$ 204.2**	$ 106.4	**$ 423.8**	$ 240.3
Finance costs, net	**41.0**	21.1	**84.8**	35.9
Total	**$ 163.2**	$ 85.3	**$ 339.0**	$ 204.4

The investments and other operations consists of the investments, at equity in Crombie REIT, real estate partnerships, and various other corporate operations.

13. Business acquisitions

The Company acquired franchise and non-franchise stores, retail gas locations, and prescription files during the 13 and 26 weeks ended November 1, 2014. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the acquisition method. Goodwill recorded on the acquisitions of franchise and non-franchise stores and retail gas locations relate to the acquired work force and customer base of the existing store location, along with the synergies expected from combining the efforts of the acquired stores with existing stores.

(in millions of Canadian dollars, except per share amounts)

The following table represents the amounts of identifiable assets from resulting acquisitions for the respective periods:

	13 Weeks Ended		26 Weeks Ended	
	November 1 2014	**November 2 2013**	**November 1 2014**	**November 2 2013**
Stores and retail gas locations				
Inventories	**$ 0.5**	$ 1.5	**$ 1.6**	$ 2.1
Property and equipment	**1.5**	1.8	**1.7**	7.1
Goodwill	**2.8**	2.6	**2.8**	2.8
Provisions	**(0.2)**	(0.1)	**(0.2)**	(0.3)
Other assets	**0.1**	0.1	**0.1**	0.1
	4.7	5.9	**6.0**	11.8
Prescription files				
Intangibles	**0.3**	0.5	**0.3**	0.5
Cash consideration	**$ 5.0**	$ 6.4	**$ 6.3**	$ 12.3

From the date of acquisition, the businesses acquired contributed sales of $3.0 and $5.8 and net earnings (losses) of $0.2 and $(0.1) for the 13 and 26 weeks ended November 1, 2014 respectively.

During the second quarter of fiscal 2015, management finalized the purchase price allocation related to the Canada Safeway acquisition. As a result, the condensed consolidated balance sheet as at November 1, 2014 was adjusted by an increase to intangibles of $42.8, an increase to property and equipment of $43.2, an increase to accounts payable and accrued liabilities of $1.0, a decrease to deferred tax assets of $4.8, an increase to deferred tax liabilities of $4.5, a decrease to other assets and liabilities of $11.4 and goodwill decreased $64.3.

14. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that the Company would receive to sell financial assets or pay to transfer financial liabilities in an orderly transaction between market participants at the measurement date.

Fair value determination is classified within a three-level hierarchy, based on observability of significant inputs, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

The book value of cash and cash equivalents, receivables, loans and other receivables, funds held in escrow, accounts payable and accrued liabilities, subscription receipts payable, and notes payable approximate fair values at the balance sheet dates due to the short term maturity of these instruments.

The book value of the long-term portion of loans and other receivables, and investments approximate fair values at the balance sheet dates due to the current market rates associated with these instruments.

The fair value of the variable rate long-term debt is assumed to approximate its carrying amount based on current market rates and consistency of credit spread. The fair value of long-term debt has been estimated by discounting future cash flows at a rate offered for borrowings of similar maturities and credit quality.

The fair value of investments, classified as Level 1, is estimated using unadjusted quoted prices in active markets. The fair value of derivative financial assets and liabilities, classified as Level 2, is estimated using valuation models that utilize market based observable inputs. Management believes that its valuation technique is appropriate.

There were no transfers between classes of the fair value hierarchy during the 26 weeks ended November 1, 2014.

(in millions of Canadian dollars, except per share amounts)

The following table provides a comparison of the carrying values and fair values for each classification of financial instruments:

	November 1, 2014		May 3, 2014		November 2, 2013	
	Total Carrying Amount	Total Fair Value	Total Carrying Amount	Total Fair Value	Total Carrying Amount	Total Fair Value
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	**$ 376.5**	**$ 376.5**	$ 429.3	$ 429.3	$ 792.5	$ 792.5
Receivables	**485.4**	**485.4**	460.5	460.5	381.8	381.8
Loans and other receivables	**101.0**	**101.0**	98.9	98.9	99.6	99.6
Funds held in escrow	**-**	**-**	-	-	2,799.1	2,799.1
Financial assets designated as fair value through profit or loss:						
Other assets(1)	**5.5**	**5.5**	6.8	6.8	6.5	6.5
Available for sale:						
Investments	**24.6**	**24.6**	24.8	24.8	24.3	24.3
Total financial assets	**$ 993.0**	**$ 993.0**	$ 1,020.3	$ 1,020.3	$ 4,103.8	$ 4,103.8
Financial Liabilities						
Other financial liabilities:						
Accounts payable and accrued liabilities	**$ 2,288.3**	**$ 2,288.3**	$ 2,246.0	$ 2,246.0	$ 1,764.8	$ 1,764.8
Subscription receipts payable	**-**	**-**	-	-	1,842.5	1,842.5
Notes payable	**-**	**-**	-	-	987.1	987.1
Long-term debt	**3,123.6**	**3,271.2**	3,497.9	3,637.7	1,140.5	1,190.1
Financial liabilities designated as fair value through profit or loss:						
Other long-term liabilities(2)	**2.7**	**2.7**	-	-	-	-
Total financial liabilities	**$ 5,414.6**	**$ 5,562.2**	$ 5,743.9	$ 5,883.7	$ 5,734.9	$ 5,784.5

(1) Represents the total carrying values of financial assets included in other assets on the condensed consolidated balance sheets.
(2) Represents the total carrying values of financial liabilities included in other long-term liabilities on the condensed consolidated balance sheets.

As at November 1, 2014, the fair value hierarchy includes financial assets designated as fair value through profit or loss of $5.0, $0.5, and $ nil for Levels 1, 2 and 3 respectively (May 3, 2014 - $6.3, $0.5, and $ nil, November 2, 2013 - $6.5, $ nil, and $ nil).

As at November 1, 2014, the fair value hierarchy includes financial assets designated as available for sale of $24.6 for Level 1 (May 3, 2014 - $24.8, November 2, 2013 - $24.3).

As at November 1, 2014, the fair value hierarchy includes financial liabilities designated as fair value through profit or loss of $ nil, $2.7, and $ nil for Levels 1, 2 and 3 respectively. There were no financial liabilities designated as fair value through profit or loss as at May 3, 2014 and November 2, 2013.

Derivative financial instruments

Derivative financial instruments are recorded on the condensed consolidated balance sheets at fair value unless the derivative instrument is a contract to buy or sell a non-financial item in accordance with the Company's expected purchase, sale or usage requirements, referred to as a "normal purchase" or "normal sale". Changes in the fair values of derivative financial instruments are recognized in net earnings or loss unless it qualifies and is designated as an effective cash flow hedge or a normal purchase or normal sale. Normal purchases and normal sales are exempt from the application of the standard and are accounted for as executory contracts. Changes in fair value of a derivative financial instrument designated as a cash flow hedge are recorded in other assets and other long-term liabilities with the effective portion recorded in other comprehensive income.

(in millions of Canadian dollars, except per share amounts)

Cash flow hedges
The Company's cash flow hedges consist principally of foreign currency swaps and interest rate swaps. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Interest rate swaps are used to protect against exposure to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates. Gains and losses are initially recognized directly in equity and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the period.

During the first quarter of fiscal 2015, Sobeys entered into an amortizing interest rate swap for an original notional amount of $598.7 at a fixed interest rate of 1.4% effective May 12, 2014 to hedge the interest rate on a portion of Sobeys' Acquisition Facility (Note 7). The notional amount outstanding at the end of the second quarter is $386.7. The interest rate swap matures on December 31, 2015.

Sobeys also entered into seven Euro/Canadian dollar forward contracts during the first quarter of fiscal 2015 at an approximate Canadian dollar value at inception of $58.0. The forward contracts were entered into to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in Euros. The forward contracts have maturities ranging from May 29, 2014 to September 1, 2016.

15. Stock-based compensation

Deferred stock units
Members of the Board of Directors may elect to receive all or any portion of their fees in deferred stock units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each directors' fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Non-Voting Class A share at the time of redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase or decrease in the DSU obligation as selling and administrative expenses on the condensed consolidated statements of earnings. At November 1, 2014 there were 116,435 (November 2, 2013 - 136,962) DSUs outstanding. During the 13 and 26 weeks ended November 1, 2014, the compensation expense was $0.5 and $2.0 respectively (November 2, 2013 - $(0.2) and $1.6).

Performance share unit plan
Commencing in fiscal 2012, the Company awarded certain employees a target number of performance share units ("PSUs") that track the Company's Non-Voting Class A share prices over a three-year period. The number of PSUs that vest under an award is dependent on time and the achievement of specific performance measures. On the vesting date, each employee is entitled to receive a cash payout amount equal to the number of their vested PSUs multiplied by the market value of the Non-Voting Class A shares. At November 1, 2014, there were 273,188 (November 2, 2013 – 57,690) PSUs outstanding. During the 13 and 26 weeks ended November 1, 2014, the compensation expense was $1.6 and $2.4 respectively (November 2, 2013 - $0.5 and $0.9).

Stock option plan
During fiscal 2015, the Company granted an additional 324,492 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The weighted average fair value of $7.86 per option was determined using the Black-Scholes model with the following weighted average assumptions:

Share price	$67.18
Expected life	8.00 years
Risk-free interest rate	1.70%
Expected volatility (based on recent 5-year history)	14.45%
Dividend yield	1.52%

The compensation cost relating to the 13 and 26 weeks ended November 1, 2014 was $1.3 and $2.0 respectively (November 2, 2013 – $1.2 and $1.3) with amortization of the cost over the vesting period of four years. The total increase in contributed surplus in relation to the stock option compensation cost was $2.0 (November 2, 2013 - $2.6).

16. Related party transactions

The Company has related party transactions with Crombie REIT. At the end of the second quarter of fiscal 2015, the Company holds a 41.5 percent ownership interest and accounts for its investment using the equity method.

On May 30, 2014, Crombie REIT closed a bought-deal public offering of units at a price of $13.25 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased approximately $40.0 of Class B LP units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently, the Company's interest in Crombie REIT decreased from 41.6 to 41.5 percent.

During the second quarter of fiscal 2015, the Company exited a sub-lease agreement with Crombie REIT and incurred a charge of $2.7. This charge is included in selling and administrative expense on the condensed consolidated statement of earnings.

Subsequent to the quarter ended November 1, 2014, Sobeys sold and leased back eight properties from Crombie REIT (Note 18).

17. Employee future benefits

During the second quarter of fiscal 2015, the net employee future benefits expense reported in net earnings was $13.8 (November 2, 2013 - $9.2). For the 26 weeks ended November 1, 2014 it was $27.4 (November 2, 2013 - $18.9). Actuarial gains (losses) before taxes on defined benefit pension plans for the 13 and 26 weeks ended November 1, 2014 were $1.1 and $(27.1) respectively (November 2, 2013 - $6.5 and $50.4). These gains (losses) have been recognized in other comprehensive income.

18. Subsequent events

Subsequent to close of the second quarter ended November 1, 2014, Sobeys sold and leased back eight properties from Crombie REIT. Total proceeds from the transaction were $101.0, the majority of which was used to repay bank borrowings. Assets of $96.9 have been included in assets held for sale for these properties as at November 1, 2014.

Subsequent to close of the second quarter ended November 1, 2014, Sobeys entered into an agreement with Canada Bread Company, Limited to sell two bread manufacturing facilities. The sales are expected to occur during the Company's fourth quarter of fiscal 2015. Total proceeds from the transaction will be approximately $32.0.