Empire Company Limited
Interim Condensed Consolidated Financial Statements
February 4, 2017

CONTENTS

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

	February 4 2017	May 7 2016	January 30 2016
ASSETS			
Current			
Cash and cash equivalents	**$ 203.3**	$ 264.7	$ 294.0
Receivables	**413.6**	489.4	484.4
Inventories (Note 4)	**1,374.1**	1,287.3	1,356.8
Prepaid expenses	**120.5**	117.3	108.4
Loans and other receivables	**20.9**	26.4	26.3
Income taxes receivable	**23.6**	11.9	10.4
Assets held for sale (Note 5)	**31.6**	407.1	27.4
	2,187.6	2,604.1	2,307.7
Loans and other receivables	**85.2**	93.5	97.6
Investments	**24.7**	24.7	24.4
Investments, at equity (Note 6)	**653.4**	574.9	587.3
Other assets	**45.1**	57.3	46.5
Property and equipment	**3,112.4**	3,144.7	3,451.0
Investment property	**82.2**	82.9	97.8
Intangibles	**881.7**	911.5	917.4
Goodwill	**966.8**	962.2	2,243.3
Deferred tax assets	**696.5**	646.2	357.2
	$ 8,735.6	$ 9,102.0	$ 10,130.2
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 2,160.1**	$ 2,173.1	$ 2,242.4
Income taxes payable	**32.4**	21.2	29.5
Provisions (Note 7)	**157.5**	174.9	95.0
Long-term debt due within one year (Note 8)	**44.0**	350.4	346.7
	2,394.0	2,719.6	2,713.6
Provisions (Note 7)	**108.5**	131.7	178.7
Long-term debt (Note 8)	**1,913.9**	2,017.0	2,041.1
Other long-term liabilities	**136.5**	108.7	107.4
Employee future benefits	**313.7**	336.8	310.6
Deferred tax liabilities	**131.4**	108.1	107.8
	4,998.0	5,421.9	5,459.2
SHAREHOLDERS' EQUITY			
Capital stock (Note 9)	**2,034.5**	2,045.1	2,045.0
Contributed surplus	**23.5**	22.5	10.2
Retained earnings	**1,611.1**	1,543.5	2,540.2
Accumulated other comprehensive income	**12.0**	9.9	18.4
	3,681.1	3,621.0	4,613.8
Non-controlling interest	**56.5**	59.1	57.2
	3,737.6	3,680.1	4,671.0
	$ 8,735.6	$ 9,102.0	$ 10,130.2

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

On Behalf of the Board

(signed) *"James Dickson"*
Director

(signed) *"Michael Medline"*
Director

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

	13 Weeks Ended		*39 Weeks Ended*	
	February 4 2017	**January 30 2016**	**February 4 2017**	**January 30 2016**
Sales	**$ 5,889.8**	$ 6,027.2	**$ 18,007.3**	$ 18,335.6
Other income (Note 10)	**9.0**	23.1	**42.0**	5.8
Share of earnings from investments, at equity	**23.9**	45.3	**64.6**	66.2
Operating expenses				
Cost of sales	**4,495.0**	4,605.4	**13,721.0**	13,924.2
Selling and administrative expenses	**1,359.1**	1,349.7	**4,121.3**	4,011.4
Impairments of goodwill and long-lived assets	**-**	1,730.3	**-**	1,730.3
Operating income (loss)	**68.6**	(1,589.8)	**271.6**	(1,258.3)
Finance costs, net (Note 11)	**28.8**	33.9	**90.3**	101.1
Earnings (loss) before income taxes	**39.8**	(1,623.7)	**181.3**	(1,359.4)
Income tax expense (recovery)	**11.4**	(258.2)	**41.1**	(184.6)
Net earnings (loss)	**$ 28.4**	$ (1,365.5)	**$ 140.2**	$ (1,174.8)
Earnings (loss) for the period attributable to:				
Non-controlling interest	**$ (2.1)**	$ 0.2	**$ 11.2**	$ 13.6
Owners of the Company	**30.5**	(1,365.7)	**129.0**	(1,188.4)
	$ 28.4	$ (1,365.5)	**$ 140.2**	$ (1,174.8)
Earnings (loss) per share (Note 12)				
Basic	**$ 0.11**	$ (5.03)	**$ 0.48**	$ (4.33)
Diluted	**$ 0.11**	$ (5.03)	**$ 0.47**	$ (4.33)
Weighted average number of common shares outstanding, in millions (Note 12)				
Basic	**271.1**	271.7	**271.5**	274.6
Diluted	**271.7**	271.8	**272.0**	274.9

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

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

	13 Weeks Ended **February 4 2017**	***13 Weeks Ended*** **January 30 2016**	***39 Weeks Ended*** **February 4 2017**	***39 Weeks Ended*** **January 30 2016**
Net earnings (loss)	**$ 28.4**	$ (1,365.5)	**$ 140.2**	$ (1,174.8)
Other comprehensive income				
Items that will be reclassified subsequently to net earnings (loss)				
Unrealized (losses) gains on derivatives designated as cash flow hedges (net of taxes of $0.3 and $0.4 (2016 - $(0.9) and $(2.5)))	**(0.6)**	2.5	**(0.8)**	6.7
Reclassification of losses on derivatives designated as cash flow hedges to earnings (loss) (net of taxes of $ nil and $ nil (2016 - $ nil and $(0.1)))	**-**	-	**-**	0.1
Unrealized losses on available for sale financial assets (net of taxes of $ nil and $ nil (2016 - $ nil and $0.1))	**(0.2)**	(0.3)	**-**	(0.6)
Share of other comprehensive income of investments, at equity (net of taxes of $(0.1) and $(0.3) (2016 - $(0.1) and $(0.3)))	**0.2**	0.3	**0.6**	0.8
Exchange differences on translation of foreign operations (net of taxes of $ nil and $0.9 (2016 - $ nil and $ nil))	**1.0**	2.2	**2.3**	5.1
	0.4	4.7	**2.1**	12.1
Items that will not be reclassified subsequently to net earnings (loss)				
Actuarial gains on defined benefit plans (net of taxes of $(12.6) and $(8.5) (2016 - $(0.2) and $(12.0)))	**32.9**	0.8	**22.1**	34.2
Total comprehensive income (loss)	**$ 61.7**	$ (1,360.0)	**$ 164.4**	$ (1,128.5)
Total comprehensive income (loss) for the period attributable to:				
Non-controlling interest	**$ (2.1)**	$ 0.2	**$ 11.2**	$ 13.6
Owners of the Company	**63.8**	(1,360.2)	**153.2**	(1,142.1)
	$ 61.7	$ (1,360.0)	**$ 164.4**	$ (1,128.5)

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 Income	Retained Earnings	Total Attributable to Owners of the Company	Non-controlling Interest	Total Equity
Balance at May 2, 2015	$ 2,109.4	$ 8.2	$ 6.3	$ 3,859.9	$ 5,983.8	$ 53.1	$ 6,036.9
Dividends declared on common shares	-	-	-	(82.2)	(82.2)	-	(82.2)
Equity based compensation, net	0.4	2.0	-	-	2.4	-	2.4
Redemption of capital stock	(64.8)	-	-	(83.3)	(148.1)	-	(148.1)
Capital transactions with structured entities	-	-	-	-	-	(9.5)	(9.5)
Transactions with owners	(64.4)	2.0	-	(165.5)	(227.9)	(9.5)	(237.4)
Net loss	-	-	-	(1,188.4)	(1,188.4)	13.6	(1,174.8)
Other comprehensive income	-	-	12.1	34.2	46.3	-	46.3
Total comprehensive loss for the period	-	-	12.1	(1,154.2)	(1,142.1)	13.6	(1,128.5)
Balance at January 30, 2016	$ 2,045.0	$ 10.2	$ 18.4	$ 2,540.2	$ 4,613.8	$ 57.2	$ 4,671.0
Balance at May 7, 2016	**$ 2,045.1**	**$ 22.5**	**$ 9.9**	**$ 1,543.5**	**$ 3,621.0**	**$ 59.1**	**$ 3,680.1**
Dividends declared on common shares	**-**	**-**	**-**	**(83.5)**	**(83.5)**	**-**	**(83.5)**
Equity based compensation, net	**-**	**1.0**	**-**	**-**	**1.0**	**-**	**1.0**
Acquisition of shares held in trust (Note 9)	**(10.6)**	**-**	**-**	**-**	**(10.6)**	**-**	**(10.6)**
Capital transactions with structured entities	**-**	**-**	**-**	**-**	**-**	**(13.8)**	**(13.8)**
Transactions with owners	**(10.6)**	**1.0**	**-**	**(83.5)**	**(93.1)**	**(13.8)**	**(106.9)**
Net earnings	**-**	**-**	**-**	**129.0**	**129.0**	**11.2**	**140.2**
Other comprehensive income	**-**	**-**	**2.1**	**22.1**	**24.2**	**-**	**24.2**
Total comprehensive income for the period	**-**	**-**	**2.1**	**151.1**	**153.2**	**11.2**	**164.4**
Balance at February 4, 2017	**$ 2,034.5**	**$ 23.5**	**$ 12.0**	**$ 1,611.1**	**$ 3,681.1**	**$ 56.5**	**$ 3,737.6**

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

Empire Company Limited	13 Weeks Ended		39 Weeks Ended	
Condensed Consolidated Statements of Cash Flows Unaudited (in millions of Canadian dollars)	**February 4 2017**	**January 30 2016**	**February 4 2017**	**January 30 2016**
Operations				
Net earnings (loss)	**$ 28.4**	$ (1,365.5)	**$ 140.2**	$ (1,174.8)
Adjustments for:				
Depreciation	**89.0**	99.5	**266.9**	293.9
Income tax expense (recovery)	**11.4**	(258.2)	**41.1**	(184.6)
Finance costs, net (Note 11)	**28.8**	33.9	**90.3**	101.1
Amortization of intangibles	**21.8**	22.4	**67.0**	66.9
Net (gain) loss on disposal of assets	**(1.7)**	(15.1)	**(21.0)**	17.7
Impairment of non-financial assets, net	**5.6**	8.5	**16.5**	11.4
Impairments of goodwill and long-lived assets	**-**	1,730.3	**-**	1,730.3
Amortization of deferred items	**3.1**	3.2	**9.5**	9.6
Equity in earnings of other entities, net of distributions received	**14.2**	(29.7)	**17.4**	(4.9)
Employee future benefits	**2.2**	1.6	**7.5**	5.7
Increase in long-term lease obligation	**4.0**	2.9	**11.7**	3.5
Decrease in long-term provisions	**(11.9)**	(12.1)	**(32.4)**	(13.9)
Equity based compensation, net	**2.1**	0.3	**1.6**	2.7
Net change in non-cash working capital	**(74.8)**	6.4	**(57.5)**	(127.7)
Income taxes paid, net	**(21.7)**	(27.4)	**(76.1)**	(82.5)
Cash flows from operating activities	**100.5**	201.0	**482.7**	654.4
Investment				
Increase in investments	**-**	-	**-**	(3.4)
Property, equipment and investment property purchases	**(83.6)**	(143.5)	**(368.9)**	(442.6)
Proceeds on disposal of property, equipment and investment property	**11.3**	82.5	**388.9**	130.9
Additions to intangibles	**(12.7)**	(11.9)	**(33.7)**	(43.4)
Loans and other receivables	**14.7**	(4.9)	**13.8**	(18.2)
Tenant inducements	**-**	-	**58.8**	-
Other assets and other long-term liabilities	**4.6**	-	**(0.6)**	5.3
Business acquisitions (Note 14)	**(3.0)**	(15.8)	**(21.7)**	(78.2)
Interest received	**-**	0.2	**1.0**	1.4
Cash flows (used in) from investing activities	**(68.7)**	(93.4)	**37.6**	(448.2)
Financing				
Issue of long-term debt	**2.5**	12.9	**42.9**	63.8
Repayment of long-term debt	**(6.4)**	(17.9)	**(368.8)**	(72.1)
Net (repayment) advance of credit facilities	**-**	(73.0)	**(93.0)**	95.1
Interest paid	**(8.1)**	(9.2)	**(54.9)**	(55.1)
Repurchase of Non-Voting Class A shares	**-**	-	**-**	(148.1)
Acquisition of shares held in trust (Note 9)	**-**	-	**(10.6)**	-
Dividends paid, common shares	**(27.8)**	(27.2)	**(83.5)**	(82.2)
Non-controlling interest	**(1.3)**	(3.2)	**(13.8)**	(9.5)
Cash flows used in financing activities	**(41.1)**	(117.6)	**(581.7)**	(208.1)
Decrease in cash and cash equivalents	**(9.3)**	(10.0)	**(61.4)**	(1.9)
Cash and cash equivalents, beginning of period	**212.6**	304.0	**264.7**	295.9
Cash and cash equivalents, end of period	**$ 203.3**	$ 294.0	**$ 203.3**	$ 294.0

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 are 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 February 4, 2017 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 and its joint ventures are accounted for using the equity method. The Company's business operations are conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 13, *Segmented Information*. The Company's Food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's first 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 7, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2017.

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 (including derivatives) at fair value through profit and loss, financial instruments classified as available for sale and cash settled stock-based compensation plans. Assets held for sale are stated 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 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 7, 2016 and remain unchanged for the period ended February 4, 2017.

3. Summary of significant accounting policies

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 7, 2016.

Accounting policy adopted during fiscal 2017

Presentation of financial statements

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing clarifying guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments became effective during the first quarter of fiscal 2017 and had no material impact on the Company's unaudited interim condensed consolidated financial statements.

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

4. Inventories

The cost of inventories recognized as an expense during the 13 and 39 weeks ended February 4, 2017 was $4,495.0 and $13,721.0 respectively (January 30, 2016 - $4,605.4 and $13,924.2). The Company has recorded $3.9 (January 30, 2016 - $1.3) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at February 4, 2017. There were no reversals of inventories written down previously (January 30, 2016 - $ nil).

5. Assets held for sale

On June 29, 2016, Sobeys closed an agreement with Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which the Company has a 41.5 percent ownership, to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Assets related to this transaction of $358.0 were included in assets held for sale as at May 7, 2016 (Note 17).

Sobeys sold 11 properties and leased back three from third parties during the 39 weeks ended February 4, 2017. Total proceeds from these transactions were $65.8, resulting in a pre-tax gain of $3.9 which has been recognized in the condensed consolidated statements of earnings (loss).

As at February 4, 2017, assets held for sale relates to land, buildings and equipment expected to be sold in the next twelve months.

6. Investments, at equity

	February 4 2017	January 30 2016
Investment in associates		
Crombie REIT	**$ 462.6**	$ 351.4
Canadian real estate partnerships	**139.3**	167.6
U.S. real estate partnerships	**42.1**	58.8
Investment in joint ventures		
Canadian Digital Cinema Partnership ("CDCP")	**9.4**	9.5
Total	**$ 653.4**	$ 587.3

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

	February 4 2017	January 30 2016
Crombie REIT	**$ 832.4**	$ 727.6

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.

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

7. Provisions

February 4, 2017	Lease Contracts	Legal	Environmental	Restructuring	Sales Price Adjustment	Total
Opening balance	$ 24.8	$ 7.7	$ 51.4	$ 150.5	$ 72.2	$ 306.6
Provisions made	7.5	4.7	0.6	17.0	-	29.8
Provisions used	(8.1)	(3.7)	(1.3)	(44.4)	-	(57.5)
Provisions reversed	(1.8)	(1.6)	(1.8)	(9.4)	(7.5)	(22.1)
Change due to discounting	0.9	-	1.2	4.6	2.5	9.2
Closing balance	$ 23.3	$ 7.1	$ 50.1	$ 118.3	$ 67.2	$ 266.0
Current	$ 12.1	$ 7.1	$ 2.3	$ 68.8	$ 67.2	$ 157.5
Non-current	11.2	-	47.8	49.5	-	108.5
Total	$ 23.3	$ 7.1	$ 50.1	$ 118.3	$ 67.2	$ 266.0

8. Long-term debt

Sobeys completed a private placement of $300.0 aggregate principal amount of floating rate senior unsecured notes in fiscal 2015 that on July 14, 2016 matured and were repaid.

9. Capital stock

During the second quarter of fiscal 2017, the Company established a trust fund to facilitate the purchase of Non-Voting Class A shares for the future settlement of vested units under the Company's equity settled stock-based compensation plans. Contributions to the trust fund and the Non-Voting Class A shares purchased will be held by CST Trust Company which will serve as trustee. The trust fund is an SE and as such the accounts of the trust fund are included in the unaudited interim condensed consolidated financial statements of the Company. During the second quarter of fiscal 2017, the trust fund purchased 550,000 Non-Voting Class A shares for $10.6. These Non-Voting Class A shares have been recorded as a reduction to both capital stock and the weighted average number of common shares outstanding.

10. Other income

	13 Weeks Ended		39 Weeks Ended	
	February 4 2017	January 30 2016	February 4 2017	January 30 2016
Net gain (loss) on disposal of assets	$ 1.7	$ 15.1	$ 21.0	$ (16.6)
Lease revenue from owned property	7.3	8.0	21.0	23.5
Dilution losses	-	-	-	(1.1)
Total	$ 9.0	$ 23.1	$ 42.0	$ 5.8

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

11. Finance costs, net

	13 Weeks Ended		39 Weeks Ended	
	February 4 2017	**January 30 2016**	**February 4 2017**	**January 30 2016**
Finance income				
Interest income from cash and cash equivalents	**$ -**	$ 0.2	**$ 0.4**	$ 0.8
Fair value gains on forward contracts	**0.7**	0.2	**2.8**	0.4
Investment income	**0.3**	0.3	**0.9**	0.9
Accretion income on loans and other receivables	**0.5**	-	**1.0**	-
Total finance income	**1.5**	0.7	**5.1**	2.1
Finance costs				
Interest expense on financial liabilities measured at amortized cost	**25.8**	27.9	**77.6**	84.2
Losses on cash flow hedges reclassified from other comprehensive income	**-**	-	**-**	0.2
Net pension finance costs	**2.8**	3.4	**8.6**	9.4
Accretion expense on provisions	**1.7**	3.3	**9.2**	9.4
Total finance costs	**30.3**	34.6	**95.4**	103.2
Finance costs, net	**$ 28.8**	$ 33.9	**$ 90.3**	$ 101.1

12. Earnings per share

	13 Weeks Ended		39 Weeks Ended	
	February 4 2017	**January 30 2016**	**February 4 2017**	**January 30 2016**
Weighted average number of shares - basic (Note 9)	**271,125,980**	271,674,339	**271,481,749**	274,632,357
Shares deemed to be issued for no consideration in respect of stock-based payments	**550,000**	111,042	**553,366**	290,270
Weighted average number of shares - diluted	**271,675,980**	271,785,381	**272,035,115**	274,922,627

Due to the Company's reported net loss for the 13 and 39 weeks ended January 30, 2016, the weighted average number of shares used for the purpose of basic and diluted earnings per share is equal, as the impact of all potential common shares would be anti-dilutive.

13. Segmented information

The Board of Directors has determined that its reportable segments are Food retailing and Investments and other operations, which is based on the Company's management and internal reporting structure. The Food retailing segment is comprised of five operating segments: Sobeys West, Sobeys Ontario, Sobeys Quebec, Sobeys Atlantic, and Sobeys Pharmacy Group. These operating segments have been aggregated into one reportable segment, "Food retailing", as they all share similar economic characteristics such as: product offerings, customer base and distribution methods. The Investments and other operations segment principally consists of investments, at equity in Crombie REIT, real estate partnerships, and various other corporate operations.

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

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.

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

All sales are generated by the Food retailing segment. Operating income (loss) generated by each of the Company's business segments is summarized as follows:

	13 Weeks Ended		39 Weeks Ended	
	February 4 2017	**January 30 2016**	**February 4 2017**	**January 30 2016**
Segmented operating income (loss)				
Food retailing	**$ 41.7**	$ (1,638.2)	**$ 206.8**	$ (1,324.3)
Investments and other operations				
Crombie REIT	**12.8**	7.2	**33.8**	20.8
Real estate partnerships	**10.9**	36.8	**30.2**	43.9
Other operations, net of corporate expenses	**3.2**	4.4	**0.8**	1.3
	26.9	48.4	**64.8**	66.0
Total	**$ 68.6**	$ (1,589.8)	**$ 271.6**	$ (1,258.3)

Segment operating income (loss) can be reconciled to the Company's earnings (loss) before income taxes as follows:

	13 Weeks Ended		39 Weeks Ended	
	February 4 2017	**January 30 2016**	**February 4 2017**	**January 30 2016**
Total operating income (loss)	**$ 68.6**	$ (1,589.8)	**$ 271.6**	$ (1,258.3)
Finance costs, net	**28.8**	33.9	**90.3**	101.1
Total	**$ 39.8**	$ (1,623.7)	**$ 181.3**	$ (1,359.4)

	February 4 2017	**January 30 2016**
Total assets by segment		
Food retailing	**$ 7,994.7**	$ 9,446.9
Investments and other operations	**740.9**	683.3
Total	**$ 8,735.6**	$ 10,130.2

14. Business acquisitions

The Company acquires franchise and non-franchise stores, retail gas locations and prescription files. 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.

The following table represents the amounts of identifiable assets and liabilities from resulting acquisitions for the 39 weeks ended February 4, 2017:

Stores and retail gas locations	
Inventories	**$ 6.9**
Property and equipment	**5.6**
Intangibles	**3.0**
Goodwill	**5.8**
Other liabilities	**(0.1)**
	21.2
Prescription files	
Intangibles	**0.5**
Cash consideration	**$ 21.7**

From the date of acquisition, the businesses acquired contributed sales of $31.8 and $64.3 and net earnings of $ nil and $ nil for the 13 and 39 weeks ended February 4, 2017 respectively.

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

15. Financial instruments

The carrying amount of the Company's financial instruments approximates their fair values with the following exception:

Long-term debt	February 4, 2017	May 7, 2016	January 30, 2016
Total carrying amount	**$ 1,957.9**	$ 2,367.4	$ 2,387.8
Total fair value	**$ 1,926.1**	$ 2,489.4	$ 2,523.4

16. Stock-based compensation

Performance share unit plan
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, for the most part, is dependent on time and the achievement of specific performance measures. Upon vesting each employee is entitled to receive the Company's Non-Voting Class A shares equal to the number of their vested PSUs. The weighted average fair value of $19.29 per PSU issued in the current period was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$20.15
Expected life	2.12 years
Risk-free interest rate	0.73%
Expected volatility	19.48%
Dividend yield	2.07%

At February 4, 2017, there were 875,368 (January 30, 2016 - 936,403) PSUs outstanding. The compensation expense (reversal) relating to the 13 and 39 weeks ended February 4, 2017 was $1.2 and $(1.2) respectively (January 30, 2016 - $1.2 and $6.1) with the amortization of the cost over the vesting period of three years. The total decrease in contributed surplus during the 39 weeks ended February 4, 2017 was $(1.2) (January 30, 2016 - $ nil).

Stock option plan
During fiscal 2017, the Company granted an additional 1,642,700 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. On September 28, 2015, the Company completed a three-for-one share split. The number of options, weighted average fair value of options, and share price have been restated to reflect the three-for-one share split. The weighted average fair value of $2.91 per option issued in the current period was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$20.40
Expected life	7.74 years
Risk-free interest rate	0.68%
Expected volatility	19.17%
Dividend yield	2.02%

The compensation cost relating to the 13 and 39 weeks ended February 4, 2017 was $0.9 and $2.8 respectively (January 30, 2016 - $0.3 and $2.7) 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 $2.8 (January 30, 2016 - $2.7).

Deferred stock unit plan
In the first quarter of fiscal 2017, the Company implemented a new employee deferred stock unit ("DSU") plan. The number of DSUs that vest is dependent on the time and the achievement of specific performance measures. At February 4, 2017 there were 620,236 (January 30, 2016 - nil) DSUs outstanding related to this plan and the total carrying amount of the liability was $1.1 (January 30, 2016 - $ nil). The compensation expense relating to the 13 and 39 weeks ended February 4, 2017 was $0.1 and $1.1 respectively (January 30, 2016 - $ nil and $ nil) with the amortization of the cost over the vesting period of three years.

Members of the Board of Directors may elect to receive all or any portion of their fees in 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' or employees' fee payment date. Additional DSUs are received as dividend equivalents. At February 4, 2017 there were 249,455 (January 30, 2016 - 425,001) DSUs outstanding and the total carrying amount of the liability was $4.1 (January 30, 2016 - $11.5). During the 13 and 39 weeks ended February 4, 2017, the compensation (reversal) expense was $(0.1) and $(0.2) (January 30, 2016 - $0.3 and $ nil).

Under both plans, vested DSUs cannot be redeemed until the holder is no longer a director of the Company or the employee has retired. 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 (loss).

17. Related party transactions

The Company has related party transactions with Crombie REIT. The Company holds a 41.5 percent ownership interest in Crombie REIT and accounts for its investment using the equity method.

On June 29, 2016, Sobeys and its wholly-owned subsidiaries closed an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Crombie REIT also invested approximately $58.8 in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. In addition to cash, Crombie REIT issued to a subsidiary of Sobeys $93.4 in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. The subsidiary of Sobeys subsequently sold its Class B LP units to Empire on a tax deferred basis. Total net cash proceeds to the Company and its wholly-owned subsidiaries from these transactions with Crombie REIT were $323.8, resulting in a pre-tax loss of $0.8 which has been recognized in the condensed consolidated statements of earnings (loss). Proceeds from the transactions were used to repay the senior unsecured notes.

On July 29, 2016, Sobeys, through a wholly-owned subsidiary, sold and leased back an additional property from Crombie REIT for cash consideration of $26.4. This resulted in a pre-tax gain of $2.1, which has been recognized in the condensed consolidated statements of earnings (loss). Sobeys also purchased one property from Crombie REIT for $9.1.

18. Employee future benefits

During the third quarter of fiscal 2017, the net employee future benefits expense reported in net earnings (loss) was $13.3 (January 30, 2016 - $13.8). For the 39 weeks ended February 4, 2017 it was $42.4 (January 30, 2016 - $41.2). Actuarial gains before taxes on defined benefit pension plans for the 13 and 39 weeks ended February 4, 2017 were $45.5 and $30.6 respectively (January 30, 2016 - $1.0 and $46.2). These gains have been recognized in other comprehensive income.

19. Subsequent event

Subsequent to February 4, 2017, Sobeys paid $55.2 related to long-term supply agreements where minimum purchase volume requirements for calendar 2016 were not met. Management continues to negotiate final settlement of these amounts provided for in previous fiscal years (Note 7).