

# Our recipe *for success*

**Empire Company Limited**

First Quarter Report

13 weeks ended August 3, 2013



# QUARTERLY REPORT TO SHAREHOLDERS

Empire Company Limited (“Empire” or the “Company”) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire’s key businesses include food retailing and related real estate. The Company’s financial results are segmented into two separate operating segments: Food Retailing and Investments and Other Operations. Empire’s food retailing segment is carried out through its wholly-owned subsidiary, Sobeys Inc. (“Sobeys”), which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada. Investments and other operations includes: (1) a 42.7 percent (40.8 percent fully diluted) equity accounted interest in Crombie Real Estate Investment Trust (“Crombie REIT”), a Canadian real estate investment trust investing in income-producing retail, office and mixed-use properties in Canada; (2) various equity accounted interests in real estate partnerships (collectively referred to as “Genstar”). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States; and (3) wholly-owned ETL Canada Holdings Limited (“Empire Theatres”), which is the second largest movie exhibitor in Canada.

With over \$17 billion in annual sales and approximately \$9.0 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

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Copies of this report are available on the Company’s website ([www.empireco.ca](http://www.empireco.ca)) or by contacting the Vice-President, Treasury & Investor Relations at (902) 755-4440. A copy has also been filed on SEDAR.

The Company provided additional details concerning its first quarter results in a conference call held on Thursday, September 12, 2013. Replay of the call is available on the Company’s website ([www.empireco.ca](http://www.empireco.ca)).

## Forward-Looking Statements

This quarterly report contains forward-looking statements which reflect management’s expectations regarding the Company’s objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this quarterly report, including statements regarding the Company’s objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities may constitute forward-looking information. Expressions such as “anticipates”, “expects”, “believes”, “estimates”, “intends”, “may”, “plans”, “will”, “would” and other similar expressions, or the negative of these terms, are generally indicative of forward-looking statements.

For additional information and a caution on the use of forward-looking information, see the section in the Management’s Discussion and Analysis (“MD&A”) entitled “Forward-Looking Information”.

# LETTER TO SHAREHOLDERS

## EMPIRE COMPANY REPORTS FIRST QUARTER RESULTS

Empire Company Limited (TSX: EMP.A) announced financial results for its first quarter ended August 3, 2013. In the first quarter, the Company recorded adjusted net earnings from continuing operations, net of non-controlling interest, of \$89.7 million (\$1.32 per diluted share) compared to \$102.6 million (\$1.51 per diluted share) in the first quarter last year.

### First Quarter Highlights

- Sales of \$4.61 billion, up \$100.3 million or 2.2 percent.
- Sobeys' same-store sales decreased 0.1 percent.
- Adjusted EBITDA <sup>(1)</sup> of \$232.4 million versus \$253.2 million last year.
- Adjusted net earnings from continuing operations <sup>(1)</sup>, net of non-controlling interest, of \$89.7 million (\$1.32 per diluted share) versus \$102.6 million (\$1.51 per diluted share) last year.
- Funded debt to total capital ratio of 19.9 percent compared to 21.5 percent last year.
- Free cash flow reported by Sobeys of \$49.7 million.

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(1) Excludes items which are considered not indicative of underlying business operating performance.

The Board of Directors declared a quarterly dividend of 26.0 cents per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on October 31, 2013 to shareholders of record on October 15, 2013. These dividends are eligible dividends as defined for the purposes of the Income Tax Act (Canada) and applicable provincial legislation and, therefore, qualify for the favourable tax treatment applicable to such dividends.

Our first quarter net earnings performance was below expectation, reflecting a highly competitive and promotional food retail operating environment, the discontinued operations of Empire Theatres and additional expenses associated with the acquisition of Canada Safeway.

Despite a challenging market environment we are confident in the future growth of the Company and remain well positioned to grow earnings and build shareholder value, including the opportunity for profitable growth as a result of the acquisition of Canada Safeway. Going forward, we will continue to execute on our strategic priorities and growth initiatives to drive sales and strengthen the business, and are committed to reducing costs and increasing efficiencies across the business.



Paul D. Sobey  
President and Chief Executive Officer  
September 12, 2013

# EMPIRE

COMPANY LIMITED

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 13 weeks ended August 3, 2013 compared to the 13 weeks ended August 4, 2012. This discussion and analysis should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and the accompanying notes for the 13 weeks ended August 3, 2013, the audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 4, 2013, and the related annual MD&A. Additional information about the Company, including the 2013 Annual Information Form, the 2013 audited annual consolidated financial statements and the 2013 annual MD&A can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.empireco.ca](http://www.empireco.ca).

The unaudited interim condensed consolidated financial statements and the accompanying notes are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars. These condensed consolidated financial statements include the accounts of Empire, its subsidiaries and Structured Entities ("SEs"), which the Company is required to consolidate.

The information contained in this MD&A is current to September 12, 2013, unless otherwise noted. There have been no material changes to disclosures as contained in the "Outlook", "Guarantees and Commitments", "Critical Accounting Estimates", "Contingencies" or "Risk Management" sections of the Company's MD&A for the 52 weeks ended May 4, 2013 other than as noted in this MD&A.

## FORWARD-LOOKING INFORMATION

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities, may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "intends", "may", "plans", "will", "would" and other similar expressions, or the negative of these terms, are generally indicative of forward-looking statements.

These forward-looking statements include the following items:

- The Company's expectation relating to timing and completion of the proposed Canada Safeway Limited ("Canada Safeway") acquisition which may be impacted by regulatory approval and other conditions in the acquisition agreement;
- The Company's expectation relating to its ability to complete any sale-leaseback transaction and other asset sales and the timing of such transactions which may be impacted by market conditions and the ability to negotiate acceptable terms with third parties;
- The Company's expectation relating to final financing breakdown, including the amount of bridge financing drawn and the timing of paying back any bridge financing drawn, which may be impacted by the timing of closing any sale-leaseback transaction, other asset sales and cash flows;
- Anticipated benefits of the Canada Safeway proposed acquisition such as growth prospects, benefits from economies of scale, future business strategy, and expectations regarding operations and strategic fit which may be impacted by the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns and the anticipated retention of Canada Safeway's operational employees;



- The Company's belief that the financing for the Canada Safeway acquisition is sufficient to close the transaction, including transaction expenses, which may be impacted by the satisfaction of certain conditions precedent to closing;
- The Company's expectation relating to timing and completion of the proposed Empire Theatres sales which may be impacted by regulatory approval and other conditions in the sale agreements;
- The Company's expectation that its operational and capital structure is sufficient to meet its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- The Company's expectation that ongoing litigation matters and claims arising from the ordinary course of business will have no material impact on the Company;
- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved;
- Sobeys Inc.'s ("Sobeys") expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives; and
- Sobeys' expectations regarding the reduction in business costs related to the opening of the new distribution centre in Québec, which could be impacted by the number of positions eliminated at other distribution centres.

These statements are based on management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives, and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflects management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of the annual MD&A for the 52 weeks ended May 4, 2013 and the Risk Factors section of the Short Form Prospectus filed July 24, 2013.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information, and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs, or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as at September 12, 2013 and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

## NON-GAAP FINANCIAL MEASURES

There are measures included in this MD&A that do not have a standardized meaning under Generally Accepted Accounting Principles ("GAAP") and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of assessing financial performance. Empire's definition of the non-GAAP terms included in this MD&A are as follows:

- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross profit is calculated as sales less cost of sales.
- Gross margin is gross profit divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings before non-controlling interest, finance costs (net of finance income) and income taxes.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as operating income plus depreciation and amortization of intangibles, which is reconciled to the operating income measure as set out in the following table:

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
Operating income	\$ 133.9	\$ 175.0
Depreciation <sup>(2)</sup>	76.1	76.1
Amortization of intangibles <sup>(2)</sup>	12.2	9.6
EBITDA	\$ 222.2	\$ 260.7

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 10 of the Company's first quarter unaudited condensed consolidated financial statements.

(2) Depreciation and amortization of intangibles from Empire Theatres have been recorded in discontinued operations.

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income.
- Adjusted net earnings from continuing operations is net earnings from continuing operations excluding items which are considered not indicative of underlying business operating performance.

- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt.
- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.
- Funded debt to EBITDA ratio is funded debt divided by trailing four-quarter EBITDA.
- EBITDA to interest expense ratio is trailing four-quarter EBITDA divided by trailing four-quarter interest expense.
- Funded debt to total capital ratio is funded debt divided by total capital.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.
- Current assets to current liabilities ratio is current assets divided by current liabilities.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures reported on the balance sheets as at August 3, 2013, May 4, 2013 and August 4, 2012, respectively:

(\$ in millions)	August 3, 2013	May 4, 2013	August 4, 2012
Bank indebtedness	\$ 3.0	\$ 6.0	\$ 5.0
Long-term debt due within one year	75.0	47.6	36.3
Long-term debt	870.3	915.9	909.4
Funded debt	948.3	969.5	950.7
Less: cash and cash equivalents	466.7	455.2	368.9
Net funded debt	481.6	514.3	581.8
Total shareholders' equity, net of non-controlling interest	3,805.6	3,724.8	3,477.2
Net total capital	\$ 4,287.2	\$ 4,239.1	\$ 4,059.0

(\$ in millions)	August 3, 2013	May 4, 2013	August 4, 2012
Funded debt	\$ 948.3	\$ 969.5	\$ 950.7
Total shareholders' equity, net of non-controlling interest	3,805.6	3,724.8	3,477.2
Total capital	\$ 4,753.9	\$ 4,694.3	\$ 4,427.9



## OVERVIEW OF THE BUSINESS

Empire's key businesses include food retailing and related real estate. The Company's financial results are segmented into two separate operating segments: (1) Food Retailing and (2) Investments and Other Operations.

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

Empire's investments and other operations segment includes:

1. A 42.7 percent (40.8 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust investing in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties. Crombie REIT currently owns a portfolio of 176 commercial properties in nine provinces, comprising approximately 14.5 million square feet of gross leasable area;
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P. and GDC Investments 6, L.P., a 45.8 percent equity accounted interest in GDC Investments 7, L.P., a 43.7 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States; and
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"), which is the second largest movie exhibitor in Canada. On June 27, 2013, the Company announced that it had reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres and 170 screens in Atlantic Canada and 2 theatres with 48 screens in Ontario. The Company had also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres and 179 screens in Ontario and Western Canada. See "Discontinued Operations" section of this MD&A.

With over \$17 billion in annual sales and approximately \$9.0 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

## DISCONTINUED OPERATIONS

Certain assets and liabilities related to Empire Theatres have been presented as held for sale as a result of the Company having reached definitive sales agreements with two unrelated parties as announced on June 27, 2013 for the sale of substantially all of the theatres. Closing of the transactions is subject to satisfaction of customary conditions and relevant regulatory approvals, which includes Competition Bureau approval, and is anticipated to occur in the second quarter of fiscal 2014. Empire Theatres is not obligated to close either transaction without closing the other. Discontinued operations are discussed and referenced throughout this MD&A.

## CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 13 weeks ended August 3, 2013 relative to the 13 weeks ended August 4, 2012:

(\$ in millions, except per share amounts)	13 Weeks Ended August 3, 2013		13 Weeks Ended August 4, 2012 <sup>(1)</sup>	
		% of Sales		% of Sales
Sales	\$ 4,609.4	100.00%	\$ 4,509.1	100.00%
Adjusted EBITDA <sup>(2)(3)</sup>	232.4	5.04%	253.2	5.62%
EBITDA <sup>(2)</sup>	222.2	4.82%	260.7	5.78%
Adjusted operating income <sup>(2)(3)</sup>	144.1	3.13%	167.5	3.71%
Operating income <sup>(2)</sup>	133.9	2.90%	175.0	3.88%
Adjusted net earnings from continuing operations <sup>(2)(3)(4)</sup>	89.7	1.95%	102.6	2.28%
Net earnings from continuing operations <sup>(4)</sup>	82.6	1.79%	108.1	2.40%
Net loss from discontinued operations	(17.6)	(0.38)%	(0.5)	(0.01)%
Net earnings <sup>(4)</sup>	65.0	1.41%	107.6	2.39%
<b>Basic earnings per share</b>				
Adjusted net earnings from continuing operations <sup>(2)(3)(4)</sup>	\$ 1.32		\$ 1.51	
Net earnings from continuing operations <sup>(4)</sup>	\$ 1.22		\$ 1.59	
Net loss from discontinued operations	\$ (0.26)		\$ (0.01)	
Net earnings <sup>(4)</sup>	\$ 0.96		\$ 1.58	
Basic weighted average number of shares outstanding (in millions)	67.9		67.9	
<b>Diluted earnings per share</b>				
Adjusted net earnings from continuing operations <sup>(2)(3)(4)</sup>	\$ 1.32		\$ 1.51	
Net earnings from continuing operations <sup>(4)</sup>	\$ 1.21		\$ 1.59	
Net loss from discontinued operations	\$ (0.26)		\$ (0.01)	
Net earnings <sup>(4)</sup>	\$ 0.95		\$ 1.58	
Diluted weighted average number of shares outstanding (in millions)	68.2		68.0	
Dividend per share	\$ 0.26		\$ 0.24	

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 10 of the Company's first quarter unaudited condensed consolidated financial statements.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

(3) Excludes items which are considered not indicative of underlying business operating performance.

(4) Net of non-controlling interest.

## MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 13 weeks ended August 3, 2013 compared to the 13 weeks ended August 4, 2012.

The financial performance of each of the Company's segments (food retailing and investments and other operations) is discussed in detail in the section entitled "Financial Performance by Segment" of this MD&A.

### Sales

Consolidated sales for the first quarter were \$4.61 billion compared to \$4.51 billion for the same quarter last year, an increase of \$100.3 million or 2.2 percent. During this period, sales from the food retailing segment increased \$98.9 million or 2.2 percent.

The following table reconciles sales reported by Sobeys to Empire's food retailing segmented sales, and food retailing and investments and other operations' segmented sales to Empire's consolidated sales from continuing operations:

(\$ in millions)	13 Weeks Ended		(\$) Change	(%) Change
	August 3, 2013	August 4, 2012		
<b>Food retailing segment</b>				
Sobeys' reported sales	\$ 4,594.9	\$ 4,496.7	\$ 98.2	2.2%
Reclassification of lease revenue from owned property recorded by Sobeys	14.1	13.3		
	<b>4,609.0</b>	4,510.0	99.0	2.2%
Elimination of inter-segment	<b>(3.0)</b>	(2.9)		
Empire's food retailing segmented sales	<b>4,606.0</b>	4,507.1	98.9	2.2%
<b>Investments and other operations segment</b>				
Empire's investments and other operations segmented sales <sup>(1)</sup>	3.4	2.0	1.4	70.0%
Empire consolidated sales	\$ <b>4,609.4</b>	\$ 4,509.1	\$ 100.3	2.2%

(1) Sales generated from Empire Theatres have been recorded in discontinued operations.

During the first quarter, Sobeys reported sales of \$4.59 billion, an increase of \$98.2 million or 2.2 percent from the \$4.50 billion reported in the first quarter of fiscal 2013. The growth in Sobeys' reported sales in the first quarter of fiscal 2014 was a result of Sobeys' continued investment in its retail network, the continued implementation of sales and merchandising initiatives and the impact of a highly promotional retail operating environment. Sobeys' same-store sales decreased 0.1 percent from the prior year. Sales growth was impacted by low food inflation and increased competitive intensity during the quarter.

Empire's investments and other operations recorded sales of \$3.4 million in the first quarter of fiscal 2014 compared to \$2.0 million last year, an increase of \$1.4 million. Sales generated from Empire Theatres have been recorded in discontinued operations. For the 13 weeks ended August 3, 2013, sales generated from discontinued operations were \$55.0 million compared to \$48.6 million in the 13 weeks ended August 4, 2012, an increase of \$6.4 million or 13.2 percent.

Please refer to the section of this MD&A entitled "Financial Performance by Segment" for an explanation of the change in sales by segment.

## EBITDA

Consolidated EBITDA for the 13 weeks ended August 3, 2013 decreased \$38.5 million or 14.8 percent to \$222.2 million from \$260.7 million in the first quarter last year. This decrease primarily relates to a decrease in gross margin combined with increased selling and administrative expenses, which were impacted by transaction costs of \$10.1 million for the Canada Safeway proposed acquisition. EBITDA margin decreased to 4.82 percent in the first quarter of fiscal 2014 from 5.78 percent in the prior year. After adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for the first quarter of fiscal 2014 was \$232.4 million compared to \$253.2 million last year, a decrease of \$20.8 million or 8.2 percent. Adjusted EBITDA margin was 5.04 percent in the first quarter of fiscal 2014 compared to 5.62 percent last year.

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
EBITDA <sup>(2)(3)</sup> (consolidated)	\$ 222.2	\$ 260.7
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	10.1	-
Loss (gain) on disposal of assets	0.1	(1.4)
Sobeys Québec distribution network restructuring	-	3.1
Sobeys' organizational realignment costs	-	2.9
Dilution gains	-	(12.1)
	10.2	(7.5)
Adjusted EBITDA <sup>(2)</sup>	\$ 232.4	\$ 253.2

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 10 of the Company's first quarter unaudited condensed consolidated financial statements.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

(3) EBITDA generated from Empire Theatres has been recorded in discontinued operations.

Please refer to the section of this MD&A entitled "Financial Performance by Segment" for an explanation of the change in EBITDA for each segment.

## Operating Income

For the 13 weeks ended August 3, 2013, Empire recorded operating income of \$133.9 million, a decrease of \$41.1 million from the \$175.0 million recorded for the 13 weeks ended August 4, 2012.

The contributors to the change in consolidated operating income from the first quarter last year were as follows:

- Sobeys' operating income contribution to Empire in the 13 weeks ended August 3, 2013 totalled \$127.0 million, a decrease of \$28.9 million or 18.5 percent from the \$155.9 million recorded in the same quarter last year.
- Investments and other operations contributed operating income of \$6.9 million in the 13 weeks ended August 3, 2013 compared to \$19.1 million in the 13 weeks ended August 4, 2012, a decrease of \$12.2 million or 63.9 percent.
  - Equity accounted earnings generated by Crombie REIT during the first quarter were \$6.7 million compared to \$5.6 million in the prior year, an increase of \$1.1 million.
  - Real estate partnerships (Genstar) contributed operating income of \$3.1 million, a decrease of \$1.5 million from the \$4.6 million recorded in the same quarter of the prior year.
  - Other operations (net of corporate expenses) contributed operating income of \$(2.9) million compared to \$8.9 million last year, a decrease of \$11.8 million. The 13 weeks ended August 4, 2012 included dilution gains of \$11.4 million.

After adjusting for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, adjusted operating income in the 13 weeks ended August 3, 2013 was \$144.1 million compared to \$167.5 million in the first quarter last year, a decrease of \$23.4 million or 14.0 percent.

Please refer to the section of this MD&A entitled “Financial Performance by Segment” for an explanation of the change in operating income for each segment.

### **Finance Costs**

Finance costs, net of finance income, for the 13 weeks ended August 3, 2013 were \$14.8 million, a decrease of \$1.2 million or 7.5 percent from the \$16.0 million recorded in the same period last year, primarily as a result of a decrease in interest expense of \$1.4 million primarily associated with a reduction in losses on cash flow hedges reclassified from other comprehensive income. EBITDA to interest expense improved to 17.6 times at the end of the first quarter of fiscal 2014 from 15.3 times at the end of the first quarter last year.

Consolidated funded debt was \$948.3 million at August 3, 2013 compared to \$950.7 million at August 4, 2012, a decrease of \$2.4 million or 0.3 percent. The decrease in consolidated funded debt from the prior year was primarily due to a decline in funded debt at Sobeys of \$11.3 million, partially offset by an \$8.9 million increase in funded debt in investments and other operations. Please refer to the “Liabilities” subsection under the “Consolidated Financial Condition” section of this MD&A for further details on consolidated funded debt.

### **Income Taxes**

The Company’s effective income tax rate for the first quarter of fiscal 2014 was 24.6 percent compared to 27.4 percent reported in the first quarter last year. The decrease in the effective income tax rate is primarily due to the timing of the realization of tax benefits compared to the same period in the prior year.

## Adjusted Net Earnings from Continuing Operations

The table below adjusts reported net earnings from continuing operations, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance. Net earnings from continuing operations for the 13 weeks ended August 3, 2013 included \$7.1 million relating to transaction costs for the Canada Safeway proposed acquisition.

(\$ in millions, except per share amounts, net of tax)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
Net earnings from continuing operations by segment <sup>(2)</sup> :		
Food retailing	\$ 79.2	\$ 95.7
Investments and other operations	3.4	12.4
Net earnings from continuing operations <sup>(2)</sup>	\$ 82.6	\$ 108.1
EPS from continuing operations (fully diluted)	\$ 1.21	\$ 1.59
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	\$ 7.1	\$ -
Gain on disposal of assets	-	(1.3)
Sobeys Québec distribution network restructuring	-	2.3
Sobeys' organizational realignment costs	-	2.1
Dilution gains	-	(8.6)
	7.1	(5.5)
Adjusted net earnings from continuing operations <sup>(2)(3)</sup>	\$ 89.7	\$ 102.6
Adjusted net earnings from continuing operations by segment <sup>(2)</sup> :		
Food retailing	\$ 86.9	\$ 98.3
Investment and other operations	2.8	4.3
Adjusted net earnings from continuing operations <sup>(2)(3)</sup>	\$ 89.7	\$ 102.6
Adjusted EPS from continuing operations (fully diluted)	\$ 1.32	\$ 1.51

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

(2) Net of non-controlling interest.

(3) See "Non-GAAP Financial Measures" section of this MD&A.

For the 13 weeks ended August 3, 2013, after factoring in the impact of the above-noted items, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest, of \$89.7 million (\$1.32 per diluted share) compared to \$102.6 million (\$1.51 per diluted share) in the first quarter last year.

## Net Earnings from Continuing Operations

Consolidated net earnings from continuing operations, net of non-controlling interest, in the first quarter equalled \$82.6 million (\$1.21 per diluted share) compared to \$108.1 million (\$1.59 per diluted share) in the first quarter last year. The decrease of \$25.5 million or 23.6 percent is due to lower operating income, partially offset by lower income taxes and lower finance costs, net of finance income, as mentioned.

The following table presents Empire's segmented net earnings from continuing operations, net of non-controlling interest, for the 13 weeks ended August 3, 2013 compared to the 13 weeks ended August 4, 2012:

(\$ in millions, except per share amounts, net of tax)	13 Weeks Ended		(\$) Change
	August 3, 2013	August 4, 2012 <sup>(1)</sup>	
Food retailing	\$ 79.2	\$ 95.7	\$ (16.5)
Investments and other operations	3.4	12.4	(9.0)
Consolidated	\$ 82.6	\$ 108.1	\$ (25.5)
EPS from continuing operations (fully diluted)	\$ 1.21	\$ 1.59	\$ (0.38)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

## Net Earnings

Consolidated net earnings, net of non-controlling interest, in the first quarter equalled \$65.0 million (\$0.95 per diluted share) compared to \$107.6 million (\$1.58 per diluted share) in the first quarter last year. The decrease of \$42.6 million or 39.6 percent is due primarily to a higher net loss from discontinued operations of \$17.1 million, accompanied by lower net earnings from continuing operations of \$25.5 million, as discussed.

Net loss from discontinued operations in the first quarter of fiscal 2014 equalled \$17.6 million (\$0.26 per diluted share) compared to \$0.5 million (\$0.01 per diluted share) in the prior year, an increase of \$17.1 million, primarily as a result of a net loss from the re-measurement of assets and restructuring costs of \$18.3 million, net of tax, in the 13 weeks ended August 3, 2013.

The following table reconciles Empire's segmented net earnings from continuing operations, net of non-controlling interest, to net earnings, net of non-controlling interest, for the 13 weeks ended August 3, 2013 compared to the 13 weeks ended August 4, 2012:

(\$ in millions, except per share amounts, net of tax)	13 Weeks Ended		(\$) Change
	August 3, 2013	August 4, 2012 <sup>(1)</sup>	
Net earnings from continuing operations by segment <sup>(2)</sup> :			
Food retailing	\$ 79.2	\$ 95.7	\$ (16.5)
Investments and other operations	3.4	12.4	(9.0)
Net earnings from continuing operations <sup>(2)</sup>	\$ 82.6	\$ 108.1	\$ (25.5)
EPS from continuing operations (fully diluted)	\$ 1.21	\$ 1.59	\$ (0.38)
Net loss from discontinued operations	(17.6)	(0.5)	(17.1)
Net earnings by segment <sup>(2)</sup> :			
Food retailing	\$ 79.2	\$ 95.7	\$ (16.5)
Investments and other operations	(14.2)	11.9	(26.1)
Net earnings <sup>(2)</sup>	\$ 65.0	\$ 107.6	\$ (42.6)
EPS (fully diluted)	\$ 0.95	\$ 1.58	\$ (0.63)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

(2) Net of non-controlling interest.

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Financial Performance by Segment".



## QUARTERLY RESULTS OF OPERATIONS

The following table is a summary of selected financial information from the Company's unaudited interim condensed consolidated financial statements for each of the eight most recently completed quarters:

(\$ in millions, except per share amounts)	Fiscal 2014		Fiscal 2013 <sup>(1)</sup>				Fiscal 2012	
	Q1 (13 Weeks) Aug. 3, 2013	Q4 (13 Weeks) May 4, 2013	Q3 (13 Weeks) Feb. 2, 2013	Q2 (13 Weeks) Nov. 3, 2012	Q1 (13 Weeks) Aug. 4, 2012	Q4 (13 Weeks) May 5, 2012	Q3 (13 Weeks) Feb. 4, 2012	Q2 (13 Weeks) Nov. 5, 2011
Sales	\$ 4,609.4	\$ 4,257.3	\$ 4,285.6	\$ 4,348.8	\$ 4,509.1	\$ 4,073.8	\$ 3,984.8	\$ 4,036.3
Operating income <sup>(2)</sup>	133.9	150.4	109.6	138.2	175.0	135.5	123.2	125.8
Net earnings from continuing operations <sup>(3)</sup>	82.6	102.6	71.2	90.4	108.1	91.4	80.0	78.1
Net (loss) earnings from discontinued operations	(17.6)	3.4	2.7	1.6	(0.5)	-	-	-
Net earnings <sup>(3)</sup>	65.0	106.0	73.9	92.0	107.6	91.4	80.0	78.1
<b>Per share information, basic</b>								
Net earnings from continuing operations <sup>(3)</sup>	1.22	1.51	1.05	1.33	1.59	1.35	1.18	1.15
Net (loss) earnings from discontinued operations	(0.26)	0.05	0.04	0.02	(0.01)	-	-	-
Net earnings <sup>(3)</sup>	\$ 0.96	\$ 1.56	\$ 1.09	\$ 1.35	\$ 1.58	\$ 1.35	\$ 1.18	\$ 1.15
Basic weighted average number of shares outstanding (in millions)	67.9	67.9	67.9	67.9	67.9	67.9	67.9	67.9
<b>Per share information, diluted</b>								
Net earnings from continuing operations <sup>(3)</sup>	1.21	1.51	1.05	1.33	1.59	1.34	1.17	1.15
Net (loss) earnings from discontinued operations	(0.26)	0.05	0.04	0.02	(0.01)	-	-	-
Net earnings <sup>(3)</sup>	\$ 0.95	\$ 1.56	\$ 1.09	\$ 1.35	\$ 1.58	\$ 1.34	\$ 1.17	\$ 1.15
Diluted weighted average number of shares outstanding (in millions)	68.2	68.1	68.1	68.1	68.0	68.0	68.1	68.0

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 10 of the Company's first quarter unaudited condensed consolidated financial statements.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

(3) Net of non-controlling interest.

As presented in the table above, the Company's sales on a comparable 13 week basis have continued to show improvement compared with the same quarter of the prior year. The ongoing improvement in sales continues to be mainly driven by the performance of Sobeys as a result of its adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution, product and services innovation and the acquisition of 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada in the fourth quarter of fiscal 2012. The first quarter of fiscal 2013, ended August 4, 2012, was the first full quarter to include fuel sales related to this acquisition. Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures.

Consolidated sales and net earnings, net of non-controlling interest, have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicity of both residential and commercial real estate, and by other risk factors as outlined in the fiscal 2013 annual MD&A and the Risk Factors section of the Short Form Prospectus filed July 24, 2013.

The Company does experience some seasonality as evidenced in the results presented above, in particular during the summer months and over the holidays.

## **FINANCIAL PERFORMANCE BY SEGMENT**

### **Food Retailing**

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right-format, right-sized stores, supported by superior customer service. Sobeys operates distinct store formats to better tailor its offering to the various customer segments it serves and to satisfy its customers' principal shopping requirements. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build new stores. The primary focus of these format development efforts are Sobeys' six major banners: Sobeys, IGA *extra*, Thrifty Foods, IGA, Foodland and FreshCo.

During the first quarter of fiscal 2014, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 21 stores (13 weeks ended August 4, 2012 - 12 stores).

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of \$5.8 billion, subject to a working capital adjustment. The agreement includes the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities. The acquisition of Canada Safeway represents a unique and highly strategic opportunity for Sobeys to leverage its existing asset base.

Pre-tax acquisition costs of \$10.1 million relating to external legal, consulting, due diligence and other closing costs incurred during the 13 weeks ended August 3, 2013 have been included in selling and administrative expenses in the condensed consolidated statements of earnings.

### **Business Process and Information System Transformation and Rationalization Costs**

Sobeys has substantially completed the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration. In fiscal 2013, Sobeys completed an information systems implementation at Thrifty Foods which resulted in streamlined business processes for those stores.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010 and was completed in the third quarter of fiscal 2013. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. The first quarter of fiscal 2013 includes \$4.8 million of pre-tax costs related to these initiatives.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility commenced operations during the third quarter of fiscal 2013 and will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving service to its store network and customers. For the first quarter of fiscal 2013, Sobeys recorded pre-tax severance costs associated with the distribution network in Québec of \$3.1 million.

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. This initiative was completed in fiscal 2013. For the first quarter of fiscal 2013, Sobeys recorded pre-tax costs associated with this initiative of \$2.9 million.

The table below summarizes Sobeys' contribution to Empire's consolidated sales, adjusted EBITDA, EBITDA, adjusted operating income, operating income, adjusted net earnings, net of non-controlling interest, and net earnings, net of non-controlling interest:

(\$ in millions)	13 Weeks Ended <sup>(1)</sup>		(\$) Change
	August 3, 2013	August 4, 2012 <sup>(2)</sup>	
Sales	\$ 4,606.0	\$ 4,507.1	\$ 98.9
Adjusted EBITDA <sup>(3)(4)</sup>	226.2	244.7	(18.5)
EBITDA <sup>(3)</sup>	215.2	240.8	(25.6)
Adjusted operating income <sup>(3)(4)</sup>	138.0	159.8	(21.8)
Operating income <sup>(3)</sup>	127.0	155.9	(28.9)
Adjusted net earnings <sup>(3)(4)(5)</sup>	86.9	98.3	(11.4)
Net earnings <sup>(5)</sup>	79.2	95.7	(16.5)

(1) Net of consolidation adjustments which includes a purchase price allocation from the privatization of Sobeys.

(2) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

(3) See "Non-GAAP Financial Measures" section of this MD&A.

(4) Excludes items which are considered not indicative of underlying business operating performance.

(5) Net of non-controlling interest.

## Sales

Empire's food retailing segment achieved sales of \$4.61 billion for the 13 weeks ended August 3, 2013, an increase of \$98.9 million or 2.2 percent over the same quarter last year. The growth in Sobeys' reported sales in the first quarter of fiscal 2014 was a result of Sobeys' continued investment in its retail network, the continued implementation of sales and merchandising initiatives and the impact of a highly promotional retail operating environment. Sobeys' same-store sales decreased 0.1 percent from the prior year. Sales growth was impacted by low food inflation and increased competitive intensity during the quarter.

During the first quarter of fiscal 2014, Sobeys opened, acquired or relocated 17 stores. There were 4 stores rebannered or redeveloped and 10 stores closed during the quarter.

## Gross Profit

Sobeys recorded gross profit for the 13 weeks ended August 3, 2013 of \$1,037.8 million, a decrease of \$3.0 million or 0.3 percent compared to \$1,040.8 million in the same quarter last year. Gross margin percentage decreased 56 basis points to 22.59 percent in the current quarter compared to 23.15 percent for the quarter ended August 4, 2012. The decrease in gross margin is a result of a highly promotional retail grocery environment.

## EBITDA

Sobeys contributed EBITDA to Empire for the first quarter of fiscal 2014 of \$215.2 million (4.67 percent of sales) compared to \$240.8 million (5.34 percent of sales) for the same period last year, a decrease of \$25.6 million or 10.6 percent. EBITDA was impacted by lower gross margin, as mentioned, combined with increased selling and administrative expenses, which were impacted in part by transaction costs of \$10.1 million for the Canada Safeway proposed acquisition. After adjusting for this and other items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys' adjusted EBITDA contribution to Empire for the 13 weeks ended August 3, 2013 was \$226.2 million (4.91 percent of sales) compared to \$244.7 million (5.43 percent of sales) in the same quarter last year, a decrease of \$18.5 million or 7.6 percent.

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
EBITDA <sup>(2)</sup> (contributed by Sobeys)	\$ 215.2	\$ 240.8
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	10.1	-
Loss (gain) on disposal of assets	0.9	(1.4)
Sobeys Québec distribution network restructuring	-	3.1
Sobeys' organizational realignment costs	-	2.9
Dilution gains	-	(0.7)
	11.0	3.9
Adjusted EBITDA <sup>(2)</sup>	\$ 226.2	\$ 244.7

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

## Operating Income

Sobeys' operating income contribution to Empire for the 13 weeks ended August 3, 2013 was \$127.0 million (2.76 percent of sales) compared to \$155.9 million (3.46 percent of sales) in the same period last year, a decrease of \$28.9 million or 18.5 percent. After adjusting for items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys contributed adjusted operating income to Empire in the 13 weeks ended August 3, 2013 of \$138.0 million (3.00 percent of sales) compared to \$159.8 million (3.55 percent of sales) in the same period last year, a decrease of \$21.8 million or 13.6 percent.

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
Operating income <sup>(2)</sup> (contributed by Sobeys)	\$ 127.0	\$ 155.9
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	10.1	-
Loss (gain) on disposal of assets	0.9	(1.4)
Sobeys Québec distribution network restructuring	-	3.1
Sobeys' organizational realignment costs	-	2.9
Dilution gains	-	(0.7)
	11.0	3.9
Adjusted operating income <sup>(2)</sup>	\$ 138.0	\$ 159.8

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

## Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of non-controlling interest, of \$86.9 million to Empire for the 13 weeks ended August 3, 2013 compared to \$98.3 million in the same period last year, a decrease of \$11.4 million or 11.6 percent.

The table below details the adjustments made to calculate Sobeys' contribution to Empire's consolidated adjusted net earnings, net of non-controlling interest:

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
Net earnings (contributed by Sobeys) <sup>(2)</sup>	\$ 79.2	\$ 95.7
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	7.1	-
Loss (gain) on disposal of assets	0.6	(1.3)
Sobeys Québec distribution network restructuring	-	2.3
Sobeys' organizational realignment costs	-	2.1
Dilution gains	-	(0.5)
	7.7	2.6
Adjusted net earnings <sup>(2)(3)</sup>	\$ 86.9	\$ 98.3

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

(2) Net of non-controlling interest.

(3) See "Non-GAAP Financial Measures" section of this MD&A.

## Net Earnings

Sobeys contributed net earnings, net of non-controlling interest, of \$79.2 million to Empire in the first quarter of fiscal 2014, a decrease of \$16.5 million or 17.2 percent from the \$95.7 million recorded in the same quarter of the prior year. This decrease is the result of lower margins combined with increased selling and administrative expenses, which were impacted by transaction costs of \$7.1 million incurred during the first quarter of fiscal 2014 for the Canada Safeway proposed acquisition.

## Investments and Other Operations

Empire's investments and other operations segment includes its equity investments in real estate and wholly-owned Empire Theatres. Empire Theatres is the second largest movie exhibitor in Canada which, as at August 3, 2013, owned 50 locations representing 421 screens.

Empire's equity investments in real estate are focused on: (i) the ownership of income-producing retail, office and mixed-use properties through a 42.7 percent equity accounted ownership interest in Crombie REIT and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through its investments in Genstar.

On June 27, 2013, the Company announced that it had reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres and 170 screens in Atlantic Canada and 2 theatres with 48 screens in Ontario. The Company had also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres and 179 screens in Ontario and Western Canada. See "Discontinued Operations" section of this MD&A.

During the first quarter of fiscal 2014, the Company entered into The Fraipont Partnership, with its equity accounted ownership interest being 49.0 percent. This partnership is being accounted for as part of real estate partnerships (Genstar).

The table below presents sales, adjusted EBITDA, EBITDA, operating income, adjusted net earnings from continuing operations, net earnings from continuing operations, net loss from discontinued operations, and net (loss) earnings for the investments and other operations segment:

(\$ in millions)	13 Weeks Ended		(\$) Change
	August 3, 2013	August 4, 2012	
Sales <sup>(1)</sup>	\$ 3.4	\$ 2.0	\$ 1.4
Adjusted EBITDA <sup>(2)(3)</sup>	6.2	8.5	(2.3)
EBITDA <sup>(1)(2)</sup>	7.0	19.9	(12.9)
Operating income <sup>(2)</sup>			
Crombie REIT <sup>(4)</sup>	6.7	5.6	1.1
Real estate partnerships <sup>(5)</sup>	3.1	4.6	(1.5)
Other operations, net of corporate expenses <sup>(1)(6)</sup>	(2.9)	8.9	(11.8)
	6.9	19.1	(12.2)
Adjusted net earnings from continuing operations <sup>(2)(3)</sup>	2.8	4.3	(1.5)
Net earnings from continuing operations	3.4	12.4	(9.0)
Net loss from discontinued operations	(17.6)	(0.5)	(17.1)
Net (loss) earnings	(14.2)	11.9	(26.1)

(1) Results generated from Empire Theatres have been recorded in discontinued operations.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

(3) Excludes items which are considered not indicative of underlying business operating performance.

(4) 42.7 percent equity accounted interest in Crombie REIT (August 4, 2012 - 42.5 percent interest).

(5) Interests in Genstar.

(6) 13 weeks ended August 4, 2012 included dilution gains of \$11.4 million.

At August 3, 2013, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

(\$ in millions)	August 3, 2013		
	Fair Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 527.1	\$ 193.5	\$ 333.6
Investment in Genstar <sup>(1)</sup>	209.8	209.8	-
Canadian Digital Cinema Partnership <sup>(1)</sup>	9.6	9.6	-
Other investments <sup>(1)(2)</sup>	24.3	24.3	-
	<b>\$ 770.8</b>	<b>\$ 437.2</b>	<b>\$ 333.6</b>

(\$ in millions)	May 4, 2013		
	Fair Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 622.7	\$ 195.2	\$ 427.5
Investment in Genstar <sup>(1)</sup>	203.2	203.2	-
Canadian Digital Cinema Partnership <sup>(1)</sup>	9.2	9.2	-
Other investments <sup>(1)(2)</sup>	39.5	39.5	-
	<b>\$ 874.6</b>	<b>\$ 447.1</b>	<b>\$ 427.5</b>

(\$ in millions)	August 4, 2012		
	Fair Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 553.0	\$ 177.3	\$ 375.7
Investment in Genstar <sup>(1)</sup>	138.5	138.5	-
Canadian Digital Cinema Partnership <sup>(1)</sup>	7.6	7.6	-
Other investments <sup>(1)(2)</sup>	38.6	38.6	-
	<b>\$ 737.7</b>	<b>\$ 362.0</b>	<b>\$ 375.7</b>

(1) Assumes fair value equals carrying value.

(2) Includes an investment in Crombie REIT Series D convertible unsecured subordinated debentures (the "Debentures") with a market value of \$24.1 million (August 4, 2012 - \$24.8 million). August 4, 2012 includes an investment in Crombie REIT Series B convertible unsecured subordinated debentures with a market value of \$13.5 million. During the first quarter of fiscal 2013, the Company purchased \$24.0 million of Debentures, which as at August 3, 2013, had a market value of \$24.1 million. On September 25, 2012, the Company converted Crombie REIT Series B convertible unsecured subordinated debentures with a face value of \$10.0 million into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of \$13.8 million, resulting in a pre-tax gain of \$3.8 million.

## Sales

Investments and other operations' sales equalled \$3.4 million in the first quarter ended August 3, 2013 versus \$2.0 million in the first quarter last year, a \$1.4 million increase. Sales generated from Empire Theatres have been recorded in discontinued operations. For the 13 weeks ended August 3, 2013, sales from the Company's discontinued operations totalled \$55.0 million compared to \$48.6 million last year, an increase of \$6.4 million or 13.2 percent.



## EBITDA

Investments and other operations contributed EBITDA to Empire for the first quarter ended August 3, 2013 of \$7.0 million compared to \$19.9 million in the same period last year, a decrease of \$12.9 million. The 13 weeks ended August 4, 2012 included dilution gains of \$11.4 million. After adjusting for this and other items which are considered not indicative of underlying business operating performance, as presented in the following table, investments and other operations' adjusted EBITDA for the first quarter was \$6.2 million compared to \$8.5 million last year, a decrease of \$2.3 million or 27.1 percent.

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012
EBITDA <sup>(1)(2)</sup> (investments and other operations)	\$ 7.0	\$ 19.9
Adjustments:		
Gain on disposal of assets	(0.8)	-
Dilution gains	-	(11.4)
Adjusted EBITDA <sup>(1)</sup>	\$ 6.2	\$ 8.5

(1) See "Non-GAAP Financial Measures" section of this MD&A.

(2) EBITDA generated from Empire Theatres has been recorded in discontinued operations.

## Operating Income

Investments and other operations contributed operating income of \$6.9 million in the 13 weeks ended August 3, 2013 versus \$19.1 million in the same period last year, a decrease of \$12.2 million. The contributors to operating income in the first quarter of fiscal 2014 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were \$6.7 million in the 13 weeks ended August 3, 2013, up \$1.1 million from the \$5.6 million recorded in the 13 weeks ended August 4, 2012. The increase was driven primarily by increased property revenue and the resulting higher property net operating income.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were \$3.1 million in the 13 weeks ended August 3, 2013, a decrease of \$1.5 million compared to \$4.6 million recorded in the same period last year, primarily as a result of weaker lot sales during the quarter.
- Other operations, net of corporate expenses, contributed operating income of \$(2.9) million in the first quarter of fiscal 2014, down \$11.8 million from the \$8.9 million recorded in the same period last year. The 13 weeks ended August 4, 2012 included dilution gains of \$11.4 million.

After adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, resulted in an adjusted operating income contribution for the 13 weeks ended August 3, 2013 of \$6.1 million compared to \$7.7 million in 13 weeks ended August 4, 2012, a decrease of \$1.6 million or 20.8 percent.

## Adjusted Net Earnings from Continuing Operations

Investments and other operations contributed adjusted net earnings from continuing operations of \$2.8 million for the 13 weeks ended August 3, 2013 compared to a contribution of \$4.3 million last year, a decrease of \$1.5 million. Included in net earnings from continuing operations in the 13 weeks ended August 4, 2012 were dilution gains, net of tax, of \$8.1 million, as mentioned. The following table adjusts reported net earnings from continuing operations for this and other items which are considered not indicative of underlying business operating performance:

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012
Net earnings from continuing operations (investments and other operations)	\$ 3.4	\$ 12.4
Adjustments:		
Gain on disposal of assets	(0.6)	-
Dilution gains	-	(8.1)
	(0.6)	(8.1)
Adjusted net earnings from continuing operations <sup>(1)</sup>	\$ 2.8	\$ 4.3

(1) See "Non-GAAP Financial Measures" section of this MD&A.

## Net Earnings from Continuing Operations

During the 13 weeks ended August 3, 2013, investments and other operations contributed \$3.4 million to Empire's consolidated net earnings from continuing operations compared to a contribution of \$12.4 million in the same period last year. The \$9.0 million decrease is primarily attributed to \$8.1 million of dilution gains, net of tax, recorded in the first quarter of fiscal 2013.

## Net Earnings

Investments and other operations contributed \$(14.2) million to Empire's consolidated net earnings in the first quarter of fiscal 2014 compared to \$11.9 million in the same period last year. The \$26.1 million decrease is primarily attributed to a higher net loss from discontinued operations of \$17.1 million, accompanied by lower net earnings from continuing operations of \$9.0 million, as discussed. The increase of \$17.1 million in the net loss from discontinued operations is primarily due to a net loss from the re-measurement of assets and restructuring costs of \$18.3 million, net of tax, in the 13 weeks ended August 3, 2013.

## CONSOLIDATED FINANCIAL CONDITION

### Capital Structure and Key Financial Condition Measures

The Company's overall financial condition has improved since the start of the fiscal year as evidenced by the capital structure and key financial condition measures presented in the table below.

(\$ in millions, except per share and ratio calculations)	August 3, 2013	May 4, 2013 <sup>(1)</sup>	August 4, 2012 <sup>(1)</sup>
Shareholders' equity, net of non-controlling interest	\$ 3,805.6	\$ 3,724.8	\$ 3,477.2
Book value per common share <sup>(2)</sup>	\$ 56.01	\$ 54.82	\$ 51.17
Bank indebtedness	\$ 3.0	\$ 6.0	\$ 5.0
Long-term debt, including current portion	\$ 945.3	\$ 963.5	\$ 945.7
Funded debt to total capital <sup>(2)</sup>	19.9%	20.7%	21.5%
Net funded debt to net total capital <sup>(2)</sup>	11.2%	12.1%	14.3%
Funded debt to EBITDA <sup>(2)(3)(4)</sup>	1.1x	1.1x	1.1x
EBITDA to interest expense <sup>(2)(3)(5)</sup>	17.6x	17.9x	15.3x
Current assets to current liabilities <sup>(2)</sup>	1.0x	1.0x	1.0x
Total assets	\$ 8,981.3	\$ 7,140.4	\$ 6,838.9

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's first quarter unaudited condensed consolidated financial statements.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

(3) Ratios for August 3, 2013 and May 4, 2013 exclude EBITDA and interest expense relating to discontinued operations.

(4) Calculation uses trailing four-quarter EBITDA.

(5) Calculation uses trailing four-quarter EBITDA and interest expense.

### Shareholders' Equity

Book value per common share was \$56.01 at August 3, 2013 compared to \$54.82 at the end of the prior quarter. The increase in book value largely reflects growth in retained earnings.

The Company's share capital on August 3, 2013 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	\$ in Millions
2002 Preferred shares, par value of \$25 each, issuable in series	991,980,000	-	\$ -
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			\$ 319.3

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at August 3, 2013 for a total of 67,948,510 shares outstanding.

On July 24, 2013, as part of the financing of the Canada Safeway proposed acquisition, the Company filed a final prospectus for the issuance of 21.1 million subscription receipts (the "Subscription Receipts") at a price of \$76.00 per Subscription Receipt, for aggregate gross proceeds of \$1,603.6 million, to a syndicate of underwriters. Empire also granted the underwriters an over-allotment option to purchase up to an additional 3.165 million Subscription Receipts for additional gross proceeds of up to \$240.5 million to cover over-allotments, if any, and for market stabilization purposes. On July 31, 2013, the Company announced that it closed its previously announced offering of 21.1 million Subscription Receipts at a price of \$76.00, along with the syndicate of underwriters exercising in full their over-allotment option, for total gross proceeds of \$1,844.1 million. As at August 3, 2013, the net proceeds from the sale of the Subscription Receipts were held in trust by CST Trust Company, the Subscription Receipt agent, pending the satisfaction of the conditions precedent to closing (the "Escrow Release Condition") in connection with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway. Further information on the Sobeys' Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in the "Business Acquisition" section of this MD&A.

Each Subscription Receipt entitles the holder thereof to receive, on satisfaction of the Escrow Release Condition, and without payment of additional consideration or further action, one Non-Voting Class A share and, if applicable, a payment equal to any cash dividends declared by Empire for which record dates have occurred during the period from July 31, 2013 to and including the date immediately preceding the date on which the Non-Voting Class A shares are issued. If the Escrow Release Condition is not satisfied on or before March 31, 2014 or if the Canada Safeway acquisition is terminated, holders of Subscription Receipts shall be entitled to receive for each Subscription Receipt an amount equal to the full subscription price plus their pro rata entitlements to the interest earned therein.

Empire had 715,826 options outstanding at August 3, 2013 compared to 684,128 options outstanding at August 4, 2012.

As at September 12, 2013, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 715,826 options to acquire in aggregate 715,826 Non-Voting Class A shares and Subscription Receipts to acquire an additional 24,265,000 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$17.7 million in the first quarter of fiscal 2014 (\$0.26 per share) versus \$16.3 million (\$0.24 per share) in the first quarter of fiscal 2013.

## Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at August 3, 2013 was \$945.3 million, representing 99.7 percent of Empire's total funded debt.

The composition of total funded debt by segment is as follows:

(\$ in millions)	August 3, 2013	May 4, 2013	August 4, 2012
Bank indebtedness			
Investments and other operations	\$ 3.0	\$ 6.0	\$ 5.0
Long-term debt (including current portion)			
Food retailing	759.7	765.2	771.0
Investments and other operations	185.6	198.3	174.7
Total funded debt <sup>(1)</sup>	\$ 948.3	\$ 969.5	\$ 950.7

(1) See "Non-GAAP Financial Measures" section of this MD&A.

Consolidated funded debt has decreased \$21.2 million from the \$969.5 million reported at the start of the fiscal year and has decreased \$2.4 million from the end of the first quarter last year. The decrease in consolidated funded debt from last quarter was due to a \$5.5 million decline in funded debt at Sobeys and a decline in debt levels in investments and other operations of \$15.7 million.

Subsequent to the close of the first quarter, on August 8, 2013, in connection with the financing associated with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway, Sobeys completed a private placement of \$500.0 million in aggregate principal amount of 3.52 percent Notes, Series 2013-1 due August 8, 2018 (the "Series 2013-1 Notes") and \$500.0 million aggregate principal amount of 4.70 percent Notes, Series 2013-2 due August 8, 2023 (the "Series 2013-2 Notes" and together with the Series 2013-1 Notes, the "Notes"). The aggregate net proceeds were approximately \$987.0 million after deducting underwriting fees and the purchase discount on the Series 2013-1 Notes. These net proceeds are held in escrow pending the satisfaction of the Escrow Release Condition. If the Escrow Release Condition is satisfied on or before March 31, 2014, Sobeys will use the net proceeds to partially fund the acquisition. If the Escrow Release Condition is not satisfied or if the acquisition is terminated, the Notes will be subject to a special mandatory redemption. The redemption price for any special mandatory redemption would be 100 percent of the aggregate principal amount of the Notes, together with accrued and unpaid interest on the Notes from the date of settlement up to but

not including the date of the special mandatory redemption. Further information on the Sobeys' Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in the "Business Acquisition" section of this MD&A.

On September 26, 2012, Empire extended the term of the credit facility to a maturity date of June 30, 2015. Interest payable on the credit facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of \$450.0 million, and a \$200.0 million unsecured non-revolving term credit facility resulting in total authorized credit facilities of \$650.0 million. In the fourth quarter of fiscal 2013, Sobeys extended the maturity date of the revolving term credit facility from February 14, 2016 to February 14, 2017, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on the revolving term credit facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate. As at August 3, 2013, Sobeys had issued \$75.2 million (May 4, 2013 - \$80.6 million) in letters of credit against the revolving term credit facility.

The ratio of funded debt to total capital has improved 1.6 percentage points to 19.9 percent from 21.5 percent at the end of the first quarter last year. This improvement is mainly a result of higher shareholders' equity levels due to growth in retained earnings, accompanied by lower consolidated funded debt levels.

Empire's funded debt to EBITDA ratio remained relatively constant at 1.1 times at August 3, 2013 compared to the beginning of the fiscal year and the first quarter last year.

Empire's EBITDA to interest expense ratio improved from 15.3 times recorded at August 4, 2012 to 17.6 times at August 3, 2013. The improvement over fiscal 2013 is primarily due to a 15.6 percent decline in interest expense, partially offset by a 2.9 percent decline in trailing four-quarter EBITDA.

On June 14, 2013, following the announcement of the Asset Purchase Agreement to acquire substantially all of the assets and select liabilities of Canada Safeway, Standard and Poor's ("S&P") reaffirmed Sobeys' credit rating of BBB- but revised its outlook from stable to negative. On July 16, 2013, Dominion Bond Rating Service ("DBRS") downgraded Sobeys' credit rating from BBB with a stable trend to BBB (low) with a stable trend.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 13 and 15 to the Company's audited annual consolidated financial statements for the 52 weeks ended May 4, 2013.

### **Financial Instruments**

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity risk. From time to time, the Company utilizes hedging instruments as deemed appropriate to mitigate risk exposure to one or more types of financial risk. The Company does not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 weeks ended August 3, 2013 or for the comparative period in fiscal 2013.

When the Company enters into a financial instrument contract, it is exposed to potential credit risk associated with the counterparty of the contract defaulting. To mitigate this risk exposure, the Company monitors the credit worthiness of the various contract counterparties on an ongoing basis and will take corrective actions as deemed appropriate should a counterparty's credit profile change dramatically.

### Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at August 3, 2013 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third party quoted bid, ask and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates to determine the fair values. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 3 and 25 to the Company's annual audited financial statements for the 52 weeks ended May 4, 2013.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company maintains the following sources of liquidity:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities; and
- Cash generated from operating activities.

At August 3, 2013, consolidated cash and cash equivalents was \$466.7 million versus \$368.9 million at August 4, 2012. The Company also had restricted cash of \$1,807.3 million at August 3, 2013 (\$nil at August 4, 2012) in connection with the closing on July 31, 2013 of the Company's previously announced offering of 24.265 million Subscription Receipts, to partially fund Sobey's acquisition of substantially all of the assets and select liabilities of Canada Safeway. The gross proceeds were \$1,844.1 million, net of fees paid of \$36.8 million, representing 50 percent of total underwriting fees for the issue, with the remainder of fees to be paid if the Escrow Release Condition is satisfied on or before March 31, 2014. See "Shareholders' Equity" section of this MD&A.

At the end of the first quarter of fiscal 2014, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450.0 million, of which \$166.0 million or 36.9 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by \$699.6 million at August 3, 2013.

The Company believes that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short-term and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit. The Company believes that the financing for the Canada Safeway acquisition (as outlined in the "Business Acquisition" section of this MD&A) is sufficient to close the transaction, including transaction expenses. In the event that certain of the financing transactions are not completed by the time of closing, the Company has in place fully committed credit facilities for the full purchase price plus transaction expenses required to close the transaction.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 weeks ended August 3, 2013 and for the fiscal year ended May 4, 2013.

The following table highlights major cash flow components for the 13 weeks ended August 3, 2013 compared to the 13 weeks ended August 4, 2012:

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
Net earnings	\$ 72.2	\$ 115.0
Non-cash and other cash items	165.3	148.7
Net change in non-cash working capital	44.1	(15.4)
Income taxes paid, net	(113.6)	(50.6)
Cash flows from operating activities	168.0	197.7
Cash flows used in investing activities	(109.8)	(131.0)
Cash flows (used in) from financing activities	(46.2)	(208.0)
Increase (decrease) in cash and cash equivalents	\$ 12.0	\$ (141.3)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's first quarter unaudited condensed consolidated financial statements.

## Operations

The first quarter of fiscal 2014 generated cash flows from operating activities of \$168.0 million compared to \$197.7 million in the first quarter last year. The \$29.7 million decrease is primarily attributed to a \$63.0 million increase in income taxes paid, net, and a \$42.8 million decrease in net earnings, partially offset by a \$59.5 million increase in the net change in non-cash working capital and a \$16.6 million increase in non-cash and other cash items.

The following table presents non-cash working capital changes on a quarter-over-quarter basis:

(\$ in millions)	13 Weeks Ended			
	August 3, 2013	May 4, 2013	August 3, 2013	August 4, 2012
			Increase (Decrease) in Cash Flows	Increase (Decrease) in Cash Flows
Receivables	\$ 359.7	\$ 381.7	\$ 22.0	\$ 24.3
Inventories	882.6	900.8	18.2	(20.0)
Prepaid expenses <sup>(1)</sup>	129.9	86.2	(43.7)	(18.0)
Accounts payable and accrued liabilities	(1,798.4)	(1,765.8)	32.6	6.0
Provisions	(25.1)	(30.6)	(5.5)	(2.7)
Impact of reclassifications on working capital <sup>(1)</sup>	(20.5)	-	20.5	(5.0)
Total	\$ (471.8)	\$ (427.7)	\$ 44.1	\$ (15.4)

(1) Impacted by \$36.8 million of underwriters' fees relating to the Subscription Receipt offering which closed on July 31, 2013. See "Shareholders' Equity" section of this MD&A.

The net change in non-cash working capital of \$44.1 million in the first quarter is largely attributed to: (i) an increase in accounts payable and accrued liabilities of \$32.6 million; (ii) a decrease in receivables of \$22.0 million; (iii) a positive impact of \$20.5 million from reclassifications on working capital; and (iv) a decrease in inventories of \$18.2 million. Partially offsetting these positive changes in non-cash working capital were an increase in prepaid expenses of \$43.7 million and a decrease in provisions of \$5.5 million. The decrease in inventories in the first quarter of fiscal 2014 compared to the increase last year is primarily related to increased inventories in preparation for the opening of the new distribution centre in Terrebonne, Québec in fiscal 2013.

The Company's ratio of current assets to current liabilities of 1.0 times remained the same from the beginning of the current fiscal year and from the end of the first quarter last year.



## Investment

Cash used in investing activities of \$109.8 million in the first quarter of fiscal 2014 decreased \$21.2 million compared to cash used of \$131.0 million last year. The decrease was primarily the result of: (i) a net decrease in cash used for investments of \$29.2 million; (ii) a decrease in property, equipment and investment property purchases of \$16.4 million; (iii) an increase in cash generated from loans and other receivables of \$5.8 million; and (iv) a decrease in non-controlling interest of \$4.7 million. Partially offsetting these sources of cash were: (i) an increase in cash used in other assets and other long-term liabilities of \$28.0 million; (ii) an increase in cash used in business acquisitions of \$5.2 million; and (iii) a decrease in proceeds on the disposal of property, equipment and investment property of \$1.6 million.

Consolidated purchases of property, equipment and investment properties totalled \$108.2 million in the 13 weeks ended August 3, 2013 compared to \$124.6 million in the 13 weeks ended August 4, 2012. Proceeds on the disposal of property, equipment and investment properties decreased \$1.6 million from \$10.0 million recorded in the first quarter of fiscal 2013 to \$8.4 million recorded in the first quarter of fiscal 2014.

The table below outlines the number of stores Sobeys invested in during the 13 weeks ended August 3, 2013 compared to the 13 weeks ended August 4, 2012:

# of stores	13 Weeks Ended	
	August 3, 2013	August 4, 2012
Opened/acquired/relocated	17	10
Expanded	-	-
Rebannered/redeveloped	4	2
Closed	10	13

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended August 3, 2013, by type:

Square feet (in thousands)	13 Weeks Ended	52 Weeks Ended
	August 3, 2013	August 3, 2013
Opened	281	1,001
Relocated	49	73
Acquired	8	22
Expanded	-	27
Closed	(137)	(404)
Net change	201	719

At August 3, 2013, Sobeys' square footage totalled 29.7 million square feet, a 2.4 percent increase over the 29.0 million square feet operated at the end of the first quarter last year.

## Financing

Financing activities during the first quarter used \$46.2 million of cash compared to \$208.0 million of cash used in the same quarter last year. The decrease in cash used of \$161.8 million is primarily the result of a decrease in the repayment of long-term debt of \$185.5 million and a decrease in interest paid of \$3.6 million, partially offset by an increase in dividends paid on common shares of \$1.4 million.

## **Business Acquisition**

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of \$5.8 billion, subject to a working capital adjustment.

The agreement includes the purchase of:

- 213 full service grocery stores under the Safeway banner in Western Canada;
- 200 in-store pharmacies;
- 62 co-located fuel stations;
- 10 liquor stores;
- 4 primary distribution centres; and
- 12 manufacturing facilities.

Empire's and Sobeys' announcement included their intention that financing for the acquisition will come from a combination of the following:

- Empire equity offering of \$1,844.1 million, net of fees of \$73.8 million, which closed on July 31, 2013, as discussed in the "Shareholders' Equity" section of this MD&A;
- A \$990.0 million sale-leaseback of acquired real estate assets, as discussed in the "Related Party Transactions" section of this MD&A;
- Term loan of \$1,825.0 million;
- The issuance of \$1,000.0 million in unsecured notes by Sobeys, as discussed in the "Liabilities" section of this MD&A;
- Other non-core asset sales; and
- Available cash on hand.

As some of these transactions may not be completed by the time of closing, Scotiabank has provided Empire and Sobeys with fully committed credit facilities for the full purchase price plus transaction expenses required to close the transaction. The closing of the acquisition is expected during the Company's third quarter, and is subject to the fulfillment or waiver of certain customary closing conditions as well as the receipt of required regulatory approvals, including that of the Competition Bureau.

Pre-tax acquisition costs of \$10.1 million relating to external legal, consulting, due diligence and other closing costs incurred during the 13 weeks ended August 3, 2013 have been included in selling and administrative expenses in the consolidated statements of earnings.

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT has agreed to indirectly acquire 68 properties included in the acquisition of substantially all of the assets of Canada Safeway for \$990.0 million. The sale-leaseback transaction is subject to customary adjustments and is conditional on a number of conditions, including the Canada Safeway acquisition closing.

## Free Cash Flow

Free cash flow is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 13 weeks ended August 3, 2013 and the 13 ended August 4, 2012.

(\$ in millions)	13 Weeks Ended	
	August 3, 2013	August 4, 2012 <sup>(1)</sup>
Cash flows from operating activities	\$ 168.0	\$ 197.7
Add: proceeds on disposal of property, equipment and investment property	8.4	10.0
Less: property, equipment and investment property purchases	(108.2)	(124.6)
Free cash flow <sup>(2)</sup>	\$ 68.2	\$ 83.1

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's first quarter unaudited condensed consolidated financial statements.

(2) See "Non-GAAP Financial Measures" section of this MD&A.

Free cash flow generation in the first quarter of fiscal 2014 was \$68.2 million compared to \$83.1 million generated in the first quarter last year. The \$14.9 million decrease in free cash flow was due to a \$29.7 million decrease in cash flows from operating activities and a \$1.6 million decrease in proceeds on the disposal of property, equipment and investment property, partially offset by a \$16.4 million decrease in property, equipment and investment property purchases. The \$29.7 million decrease in cash flows from operating activities is primarily attributed to a \$63.0 million increase in income taxes paid, net, and a \$42.8 million decrease in net earnings, partially offset by a \$59.5 million increase in the net change in non-cash working capital and a \$16.6 million increase in non-cash and other cash items.

## ACCOUNTING STANDARDS AND POLICIES

### Accounting Standards and Policies Adopted During Fiscal 2014

#### (i) Employee Benefits

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The Company adopted and implemented the amendments to IAS 19 during its first quarter of fiscal 2014 and retrospective application was required. The impact from the adoption of the amendments to IAS 19 is summarized as follows:

Condensed Consolidated Statements of Earnings and Comprehensive Income			
Increase (Decrease) (\$ in millions)	13 Weeks Ended		52 Weeks Ended
	August 4, 2012		May 4, 2013
Selling and administrative expenses	\$	0.3	\$ 0.9
Operating income		(0.3)	(0.9)
Finance costs, net		1.5	6.2
Earnings before income taxes		(1.8)	(7.1)
Income taxes		(0.5)	(1.8)
Net earnings		(1.3)	(5.3)
Other comprehensive income, net of taxes		1.2	4.7
Total comprehensive income	\$	(0.1)	\$ (0.6)

Condensed Consolidated Balance Sheets					
Increase (Decrease) (\$ in millions)	As at August 4, 2012		As at May 4, 2013		As at May 5, 2012
Deferred tax assets	\$	0.2	\$	0.3	\$ 0.2
Other long-term liabilities		1.1		1.7	1.0
Retained earnings		(0.9)		(1.4)	(0.8)

The enhanced annual disclosures required for defined benefit plans will be included in the Company's annual consolidated financial statements for the year ended May 3, 2014.

#### (ii) Consolidated Financial Statements

In May 2011, the IASB issued International Financial Reporting Standards ("IFRS") 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation - Special Purpose Entities", completely. The standard became effective in the first quarter of 2014. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SEs. Adoption of this standard had no significant impact on the Company's financial results.

#### (iii) Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities - Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, the IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the

entities that have an interest in arrangements that are jointly controlled. The standard became effective in the first quarter of 2014 and did not have a significant impact on the Company's financial statements.

(iv) Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard became effective in the first quarter of 2014 and will result in additional disclosures in the Company's annual financial statements.

(v) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS became effective in the first quarter of 2014. The adoption of this standard had no measurement impact on the Company's financial results. Enhanced disclosures have been included in Note 14 to the unaudited interim condensed consolidated financial statements.

(vi) Presentation of Financial Statements

In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments became effective in the first quarter of 2014 and did not have a significant impact on the Company's financial results and disclosures.

## **Future Changes in Accounting Standards**

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) 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. IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014.

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

## **Critical Accounting Estimates**

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2013 annual MD&A.

## **Internal Control over Financial Reporting**

Management of Empire, which includes the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in Empire's ICFR during the period beginning May 5, 2013 and ended August 3, 2013 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

## **RELATED PARTY TRANSACTIONS**

The Company has related party transactions with Crombie REIT. At the end of the first quarter, the Company held a 42.7 percent ownership interest in Crombie REIT which is accounted for using the equity method. As a result of the conversion of Crombie REIT debentures during the first quarter of the current fiscal year, the Company's interest in Crombie REIT was reduced from 42.8 percent at the end of fiscal 2013 to 42.7 percent. On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.8 percent.

The Company rents premises from Crombie REIT at amounts which, in management's opinion, approximate fair market value. Based upon the significant number of leases negotiated with third parties operating in the same markets in which the Company rents premises from Crombie REIT, management has determined the rental payments to Crombie REIT to be indicative of fair value. During the 13 weeks ended August 3, 2013, the aggregate net payments under these leases, which are measured at exchange amount, were \$29.1 million (13 weeks ended August 4, 2012 - \$26.7 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 13 weeks ended August 3, 2013, charges incurred for administrative and management services were \$0.1 million (13 weeks ended August 4, 2012 - \$0.3 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$2.2 million (August 4, 2012 - \$2.9 million) related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

On July 3, 2012, the Company purchased \$24.0 million of Debentures from Crombie REIT, pursuant to a \$60.0 million bought-deal prospectus offering. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00 percent per annum and each \$1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$20.10 per unit.

The Company owns Crombie REIT Debentures with a market value of \$24.1 million (August 4, 2012 - \$24.8 million). At August 4, 2012, the Company owned Crombie REIT Series B convertible unsecured subordinated debentures with a market value of \$13.5 million. During the 13 weeks ended August 3, 2013, the Company received income related to these securities of \$0.3 million (13 weeks ended August 4, 2012 - \$0.3 million).

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT has agreed to indirectly acquire 68 properties included in the acquisition of substantially all of the assets of Canada Safeway for \$990.0 million. The sale-leaseback transaction is subject to customary adjustments and is conditional on a number of conditions, including the Canada Safeway acquisition closing. Concurrent with the closing of the acquisition of the 68 properties, the Company has agreed to purchase \$150.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently, the Company's interest in Crombie REIT will be reduced from 42.7 percent to 42.1 percent.

## **CONTINGENCIES**

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

## **RISK MANAGEMENT**

Risk and uncertainties related to economic and industry factors and the Company's management of risk are discussed in detail in the fiscal 2013 annual MD&A and the Risk Factors section of the Short Form Prospectus filed July 24, 2013.

## **ECONOMIC ENVIRONMENT**

Management continues to closely monitor economic conditions, including interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

## **DESIGNATION FOR ELIGIBLE DIVIDENDS**

"Eligible dividends" receive favourable treatment for income tax purposes. To be an eligible dividend, a dividend must be designated as such at the time of payment.

Empire has, in accordance with the administrative position of CRA, included the appropriate language on its website to designate the dividends paid by Empire as eligible dividends unless otherwise designated.

## **EMPLOYEE FUTURE BENEFIT OBLIGATIONS**

For the 13 weeks ended August 3, 2013, the Company contributed \$1.9 million to its registered defined benefit plans (13 weeks ended August 4, 2012 - \$2.5 million). The Company expects to contribute approximately \$7.8 million in fiscal 2014 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

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Additional financial information relating to Empire, including the Company's Annual Information Form, can be found on the Company's website [www.empireco.ca](http://www.empireco.ca) or on the SEDAR website for Canadian regulatory filings at [www.sedar.com](http://www.sedar.com).

Dated: September 12, 2013  
Stellarton, Nova Scotia, Canada



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

	August 3 2013	May 4 2013 <sup>(1)</sup>	August 4 2012 <sup>(1)</sup>
<b>ASSETS</b>			
Current			
Cash and cash equivalents	\$ 466.7	\$ 455.2	\$ 368.9
Restricted cash (Note 6)	1,807.3	-	-
Receivables	359.7	381.7	337.7
Inventories (Note 4)	882.6	900.8	845.3
Prepaid expenses	129.9	86.2	95.6
Loans and other receivables	57.2	66.2	36.9
Investments	-	14.5	-
Income taxes receivable	44.1	33.8	52.1
Assets held for sale (Note 10)	164.9	22.0	59.2
	<u>3,912.4</u>	<u>1,960.4</u>	<u>1,795.7</u>
Loans and other receivables	53.4	53.8	61.1
Investments	24.3	25.0	38.6
Investments, at equity (Note 5)	412.9	407.6	323.4
Other assets	66.1	50.5	45.7
Property and equipment	2,611.7	2,703.0	2,683.2
Investment property	98.0	96.9	86.8
Intangibles	485.2	490.5	458.9
Goodwill	1,268.9	1,310.4	1,302.2
Deferred tax assets	48.4	42.3	43.3
	<u>\$ 8,981.3</u>	<u>\$ 7,140.4</u>	<u>\$ 6,838.9</u>
<b>LIABILITIES</b>			
Current			
Bank indebtedness	\$ 3.0	\$ 6.0	\$ 5.0
Accounts payable and accrued liabilities	1,798.4	1,765.8	1,735.8
Subscription receipts payable (Note 6)	1,844.1	-	-
Income taxes payable	7.5	75.2	23.5
Provisions	25.1	30.6	27.4
Long-term debt due within one year (Note 7)	75.0	47.6	36.3
Liabilities relating to assets held for sale (Note 10)	14.8	-	-
	<u>3,767.9</u>	<u>1,925.2</u>	<u>1,828.0</u>
Provisions	52.5	52.9	63.0
Long-term debt (Note 7)	870.3	915.9	909.4
Other long-term liabilities	262.4	309.7	341.2
Deferred tax liabilities	186.7	180.6	184.9
	<u>5,139.8</u>	<u>3,384.3</u>	<u>3,326.5</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	319.3	319.3	319.3
Contributed surplus	6.8	6.7	6.3
Retained earnings	3,486.4	3,406.9	3,159.1
Accumulated other comprehensive loss	(6.9)	(8.1)	(7.5)
	<u>3,805.6</u>	<u>3,724.8</u>	<u>3,477.2</u>
Non-controlling interest	35.9	31.3	35.2
	<u>3,841.5</u>	<u>3,756.1</u>	<u>3,512.4</u>
	<u>\$ 8,981.3</u>	<u>\$ 7,140.4</u>	<u>\$ 6,838.9</u>

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

<sup>(1)</sup> Certain fiscal 2013 amounts have been restated (see Note 3(a)(i))

On Behalf of the Board

(signed) "Rob Dexter"  
 Director

(signed) "Paul Sobey"  
 Director

**Empire Company Limited**  
**Condensed Consolidated Statements of Earnings**  
**13 Weeks Ended**

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

	August 3 2013	August 4 2012 <sup>(1)</sup>
Sales	\$ 4,609.4	\$ 4,509.1
Other income (Note 8)	0.7	13.8
Share of earnings from investments, at equity	10.0	10.3
Operating expenses		
Cost of sales	3,556.1	3,454.0
Selling and administrative expenses	930.1	904.2
Operating income	133.9	175.0
Finance costs, net (Note 9)	14.8	16.0
Earnings before income taxes	119.1	159.0
Income taxes	29.3	43.5
Net earnings from continuing operations	89.8	115.5
Net loss from discontinued operations (Note 10)	17.6	0.5
Net earnings	\$ 72.2	\$ 115.0
Earnings for the period attributable to:		
Non-controlling interest	\$ 7.2	\$ 7.4
Owners of the parent		
From continuing operations	82.6	108.1
From discontinued operations	(17.6)	(0.5)
	\$ 72.2	\$ 115.0
Earnings per share from continuing and discontinued operations (Note 11)		
Basic		
From continuing operations	\$ 1.22	\$ 1.59
From discontinued operations	(0.26)	(0.01)
From net earnings	\$ 0.96	\$ 1.58
Diluted		
From continuing operations	\$ 1.21	\$ 1.59
From discontinued operations	(0.26)	(0.01)
From net earnings	\$ 0.95	\$ 1.58
Weighted average number of common shares outstanding, in millions (Note 11)		
Basic	67.9	67.9
Diluted	68.2	68.0

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

<sup>(1)</sup> Certain fiscal 2013 amounts have been restated (see Note 3(a)(i) and 10)

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

	August 3 2013	August 4 2012 <sup>(1)</sup>
Net earnings	\$ 72.2	\$ 115.0
Other comprehensive income		
Items that will be reclassified subsequently to net earnings		
Unrealized gains (losses) on derivatives designated as cash flow hedges (net of income taxes of \$(0.1) for the 13 weeks to date (August 4, 2012 - \$ nil))	0.2	(0.2)
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings (net of income taxes of \$nil for the 13 weeks to date (August 4, 2012 - \$(0.5)))	-	1.1
Unrealized (losses) gains on available for sale financial assets (net of income taxes of \$0.1 for the 13 weeks to date (August 4, 2012 - \$(0.2)))	(0.6)	1.3
Share of other comprehensive income of investments, at equity (net of income taxes of \$(0.1) for the 13 weeks to date (August 4, 2012 - \$(0.2)))	0.4	0.3
Exchange differences on translation of foreign operations	1.2	0.8
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit plans (net of income taxes of \$(11.7) for the 13 weeks to date (August 4, 2012 - \$4.5))	32.2	(13.1)
Total comprehensive income	<u>\$ 105.6</u>	<u>\$ 105.2</u>
Total comprehensive income for the period attributable to:		
Non-controlling interest	\$ 7.2	\$ 7.4
Owners of the parent	<u>98.4</u>	<u>97.8</u>
	<u>\$ 105.6</u>	<u>\$ 105.2</u>
Total comprehensive income attributable to owners of the parent arises from:		
Continuing operations	\$ 116.0	\$ 98.3
Discontinued operations (Note 10)	<u>(17.6)</u>	<u>(0.5)</u>
	<u>\$ 98.4</u>	<u>\$ 97.8</u>

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

<sup>(1)</sup> Certain fiscal 2013 amounts have been restated (see Note 3(a)(i) and 10)

**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	Retained Earnings	Total Attributable to Parent	Non-controlling Interest	Total Equity
<b>Balance at May 5, 2012<sup>(1)</sup></b>	\$ 319.3	\$ 6.1	\$ (10.8)	\$ 3,080.9	\$ 3,395.5	\$ 35.1	\$ 3,430.6
Dividends declared on common shares	-	-	-	(16.3)	(16.3)	-	(16.3)
Employee share options	-	0.2	-	-	0.2	-	0.2
Capital transactions with structured entities	-	-	-	-	-	(7.3)	(7.3)
Transactions with owners	-	0.2	-	(16.3)	(16.1)	(7.3)	(23.4)
Net earnings	-	-	-	107.6	107.6	7.4	115.0
Other comprehensive income	-	-	-	-	-	-	-
Unrealized losses on derivatives designated as cash flow hedges	-	-	(0.2)	-	(0.2)	-	(0.2)
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	-	-	1.1	-	1.1	-	1.1
Unrealized gains on available for sale financial assets	-	-	1.3	-	1.3	-	1.3
Actuarial losses on defined benefit plans	-	-	-	(13.1)	(13.1)	-	(13.1)
Share of other comprehensive income of investments, at equity	-	-	0.3	-	0.3	-	0.3
Exchange differences on translation of foreign operations	-	-	0.8	-	0.8	-	0.8
Total comprehensive income for the period	-	-	3.3	94.5	97.8	7.4	105.2
<b>Balance at August 4, 2012<sup>(1)</sup></b>	\$ 319.3	\$ 6.3	\$ (7.5)	\$ 3,159.1	\$ 3,477.2	\$ 35.2	\$ 3,512.4

<b>Balance at May 4, 2013<sup>(1)</sup></b>	\$ 319.3	\$ 6.7	\$ (8.1)	\$ 3,406.9	\$ 3,724.8	\$ 31.3	\$ 3,756.1
Dividends declared on common shares	-	-	-	(17.7)	(17.7)	-	(17.7)
Employee share options	-	0.1	-	-	0.1	-	0.1
Capital transactions with structured entities	-	-	-	-	-	(2.6)	(2.6)
Transactions with owners	-	0.1	-	(17.7)	(17.6)	(2.6)	(20.2)
Net earnings	-	-	-	65.0	65.0	7.2	72.2
Other comprehensive income	-	-	-	-	-	-	-
Unrealized gains on derivatives designated as cash flow hedges	-	-	0.2	-	0.2	-	0.2
Unrealized losses on available for sale financial assets	-	-	(0.6)	-	(0.6)	-	(0.6)
Actuarial gains on defined benefit plans	-	-	-	32.2	32.2	-	32.2
Share of other comprehensive income of investments, at equity	-	-	0.4	-	0.4	-	0.4
Exchange differences on translation of foreign operations	-	-	1.2	-	1.2	-	1.2
Total comprehensive income for the period	-	-	1.2	97.2	98.4	7.2	105.6
<b>Balance at August 3, 2013</b>	\$ 319.3	\$ 6.8	\$ (6.9)	\$ 3,486.4	\$ 3,805.6	\$ 35.9	\$ 3,841.5

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

<sup>(1)</sup> Certain fiscal 2013 amounts have been restated (see Note 3(a)(i))

**Empire Company Limited**  
**Condensed Consolidated Statements of Cash Flows**  
**13 Weeks Ended**  
**Unaudited (in millions of Canadian dollars)**

	August 3 2013	August 4 2012 <sup>(1)</sup>
<b>Operations</b>		
Net earnings	\$ 72.2	\$ 115.0
Adjustments for:		
Depreciation	79.4	79.3
Income taxes (Note 10)	23.8	43.4
Finance costs, net (Note 9 and 10)	15.1	16.4
Amortization of intangibles	12.5	9.8
Loss (gain) on disposal of assets (Note 8)	0.1	(13.5)
Impairment of non-financial assets	0.5	3.2
Amortization of deferred items	0.4	0.2
Equity in earnings of other entities, net of dividends received	10.2	7.8
Employee future benefits obligation	0.6	0.8
Decrease in long-term lease obligation	(0.1)	(2.1)
(Decrease) increase in long-term provisions	(1.6)	3.2
Stock-based compensation	0.1	0.2
Losses recognized on re-measurement of assets and re-structuring costs of discontinued operations (Note 10)	24.3	-
Net change in non-cash working capital	44.1	(15.4)
Income taxes paid, net	(113.6)	(50.6)
Cash flows from operating activities	<u>168.0</u>	<u>197.7</u>
<b>Investment</b>		
Net decrease (increase) in investments	0.7	(28.5)
Property, equipment and investment property purchases	(108.2)	(124.6)
Proceeds on disposal of property, equipment and investment property	8.4	10.0
Additions to intangibles	(7.6)	(7.7)
Loans and other receivables	9.4	3.6
Other assets and other long-term liabilities	(4.5)	23.5
Business acquisitions (Note 13)	(5.9)	(0.7)
Interest received	0.5	0.7
Non-controlling interest	(2.6)	(7.3)
Cash flows used in investing activities	<u>(109.8)</u>	<u>(131.0)</u>
<b>Financing</b>		
(Decrease) increase in bank indebtedness	(3.0)	0.6
Issue of long-term debt	20.8	43.1
Repayment of long-term debt	(38.5)	(224.0)
Interest paid	(7.8)	(11.4)
Dividends paid, common shares	(17.7)	(16.3)
Cash flows used in financing activities	<u>(46.2)</u>	<u>(208.0)</u>
Increase (decrease) in cash and cash equivalents	12.0	(141.3)
Cash and cash equivalents, beginning of period	<u>455.2</u>	<u>510.2</u>
Total cash and cash equivalents, end of period	467.2	368.9
Cash related to disposal groups classified as held for sale (Note 10)	<u>0.5</u>	-
Cash and cash equivalents, end of period	<u>\$ 466.7</u>	<u>\$ 368.9</u>

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

<sup>(1)</sup> Certain fiscal 2013 amounts have been restated (see Note 3(a)(i) and 10)

**Empire Company Limited**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**August 3, 2013**  
**(in millions of Canadian dollars, except per share amounts)**

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**1. Reporting entity**

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company whose key businesses include food retailing and corporate investment activities. 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 August 3, 2013 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 investments in significant joint ventures are accounted for using the equity method. 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 4, 2013.

The unaudited, interim condensed consolidated financial statements were authorized for issue by the Board of Directors on September 12, 2013.

**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, financial instruments classified as available for sale and 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 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.

The Company has applied judgment in its assessment of the appropriateness of consolidation of SEs, the appropriateness of equity accounting for its investments in associates and joint ventures, the classification of leases and financial instruments, the level of componentization of property and equipment, the determination of cash generating units, the identification of indicators of impairment for property and equipment, investment property and intangible assets, the allocation of purchase price adjustments on business combinations, and the recognition of provisions.

Estimates, judgments and assumptions that could have a significant impact on the amounts recognized in the condensed consolidated financial statements are summarized in the Company's annual consolidated financial statements for the year ended May 4, 2013 and remain unchanged for the period ended August 3, 2013.

The Company's investments in associates are accounted for using the equity accounting method. In assessing the potential impact of IFRS 10 which became effective during the first quarter of 2014 (Note 3(a)(ii)), management used significant judgment in determining whether the Company has power over each of its investments contained in investments in associates and its ability to use its power over the investees. The criteria for determining whether an investee should be accounted for using the consolidation or equity accounting method are whether the investor possesses power over the investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns.

**Empire Company Limited**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**August 3, 2013**  
(in millions of Canadian dollars, except per share amounts)

**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 4, 2013.

**(a) Accounting standards and policies adopted during fiscal 2014**

**(i) Employee benefits**

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The Company adopted and implemented the amendments to IAS 19 during its first quarter of fiscal 2014 and retrospective application was required. The impact from the adoption of the amendments to IAS 19 is summarized as follows:

<b>Condensed Consolidated Statements of Earnings and Comprehensive Income</b>	<b>August 4, 2012</b>	<b>May 4, 2013</b>
<b>Increase (Decrease)</b>	<b>(13 Weeks Ended)</b>	<b>(52 Weeks Ended)</b>
Selling and administrative expenses	\$ 0.3	\$ 0.9
Operating income	(0.3)	(0.9)
Finance costs, net	1.5	6.2
Earnings before income taxes	(1.8)	(7.1)
Income taxes	(0.5)	(1.8)
Net earnings	(1.3)	(5.3)
Other comprehensive income, net of taxes	1.2	4.7
<b>Total comprehensive income</b>	<b>\$ (0.1)</b>	<b>\$ (0.6)</b>

<b>Condensed Consolidated Balance Sheets</b>	<b>As at</b>	<b>As at</b>	<b>As at</b>
<b>Increase (Decrease)</b>	<b>August 4, 2012</b>	<b>May 4, 2013</b>	<b>May 5, 2012</b>
Deferred tax assets	\$ 0.2	\$ 0.3	\$ 0.2
Other long-term liabilities	1.1	1.7	1.0
Retained earnings	(0.9)	(1.4)	(0.8)

The enhanced annual disclosures required for defined benefit plans will be included in the Company's annual consolidated financial statements for the year ended May 3, 2014.

**(ii) Consolidated financial statements**

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation - Special Purpose Entities", completely. The standard became effective in the first quarter of 2014. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SE's. Adoption of this standard had no significant impact on the Company's financial results.

**(iii) Joint arrangements**

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities - Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, the IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled. The standard became effective in the first quarter of 2014 and did not have a significant impact on the Company's financial statements.

**(iv) Disclosure of interests in other entities**

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard became effective in the first quarter of 2014 and will result in additional disclosures in the Company's annual financial statements.

**(v) Fair value measurement**

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This standard became effective in the first quarter of 2014. The adoption of this standard had no measurement impact on the Company's financial results. Enhanced disclosures have been included in Note 14 to these unaudited, interim condensed consolidated financial statements.

**(vi) Presentation of financial statements**

In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments became effective in the first quarter of 2014 and did not have a significant impact on the Company's financial results and disclosures.

**(b) Future accounting policies**

**(i) Financial instruments**

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

**(ii) 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. IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014.

The Company is currently evaluating the impact of the new standard and amendments on its consolidated financial statements.

**4. Inventories**

The cost of inventories (including those from discontinued operations) recognized as an expense during the 13 weeks ended August 3, 2013 was \$3,562.5 (August 4, 2012 - \$3,459.3). The Company has recorded \$8.4 (August 4, 2012 - \$8.7) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at August 3, 2013. There were no reversals of inventories written down previously (August 4, 2012 - \$nil).



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**5. Investments, at equity**

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

	August 3 2013	August 4 2012
<b>Investment in associates</b>		
Crombie Real Estate Investment Trust ("Crombie REIT")	\$ 193.5	\$ 177.3
Canadian real estate partnerships	143.0	95.6
U.S. real estate partnerships	66.8	42.9
<b>Investment in joint ventures</b>		
Canadian Digital Cinema Partnership ("CDCP")	9.6	7.6
<b>Total</b>	<b>\$ 412.9</b>	<b>\$ 323.4</b>

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

	August 3 2013	August 4 2012
Crombie REIT	\$ 527.1	\$ 553.0

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.

**6. Subscription receipts payable**

On July 31, 2013, in connection with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway Limited, the Company closed its previously announced offering of 21,100,000 subscription receipts at a price of \$76.00 per Subscription Receipt. The Underwriters elected to exercise their over-allotment option in full at closing, resulting in a total of 24,265,000 subscription receipts being issued by Empire for gross proceeds of \$1,844.1. The proceeds, net of fees paid of \$36.8 representing 50% of total underwriting fees for the issue with the remainder of fees to be paid if the escrow release conditions are satisfied on or before March 31, 2014, are being held by CST Trust Company, as subscription receipt agent, and are invested in short term interest bearing debt obligations issued by a Canadian chartered bank. These net proceeds are held in escrow pending the satisfaction of the conditions to closing. If the escrow release conditions are satisfied on or before March 31, 2014, each subscription receipt will be exchanged for one non-voting Class A share of the Company, and an adjustment payment paid equal to the amount of any cash dividends declared for which the record date falls between the date of the subscription receipt agreement and the date immediately preceding the release date. If the escrow release conditions are not satisfied or if the acquisition is terminated, each subscription receipt holder will receive a payment equal to the full subscription price for each receipt and the pro rata share of interest earned on those receipts. Further information on Sobeys Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in Note 13.

**7. Long-term debt**

On September 26, 2012, the Company extended the term of its credit facilities to a maturity date of June 30, 2015.

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Subsequent to the close of the first quarter, on August 8, 2013, in connection with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway Limited, Sobeys completed a private placement of \$500.0 aggregate principal amount of 3.52 percent Notes, Series 2013-1 due August 8, 2018 (the "Series 2013-1 Notes") and \$500.0 aggregate principal amount of 4.70 percent Notes, Series 2013-2 due August 8, 2023 (the "Series 2013-2 Notes" and together with the Series 2013-1 Notes, the "Notes"). The aggregate net proceeds were approximately \$987.0 after deducting underwriting fees and the purchase discount on the 2013-1 Notes. These net proceeds are held in escrow pending the satisfaction of the conditions to closing. If the escrow release conditions are satisfied on or before March 31, 2014, Sobeys will use the net proceeds to partially fund the acquisition. If the escrow release conditions are not satisfied or if the acquisition is terminated, the Notes will be subject to a special mandatory redemption. The redemption price for any special mandatory redemption would be 100 percent of the aggregate principal amount of the Notes, together with accrued and unpaid interest on the Notes from the date of settlement up to but not including the date of the special mandatory redemption. Further information on the Company's Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in Note 13.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of \$450.0, and a \$200.0 unsecured non-revolving term credit facility resulting in total authorized credit facilities of \$650.0. The revolving term credit facility matures on February 14, 2017, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on the revolving term credit facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate. As of August 3, 2013, Sobeys had issued \$75.2 in letters of credit against the revolving term credit facility (May 4, 2013 - \$80.6).

**8. Other income**

	<b>13 Weeks Ended</b>	
	<b>August 3 2013</b>	<b>August 4 2012</b>
(Loss) gain on disposal of assets	\$ (0.1)	\$ 1.4
Dilution gains	-	12.1
Investment income	0.8	0.3
<b>Total</b>	<b>\$ 0.7</b>	<b>\$ 13.8</b>

**9. Finance costs, net**

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

	<b>13 Weeks Ended</b>	
	<b>August 3 2013</b>	<b>August 4 2012</b>
<b>Finance income</b>		
Interest income from cash and cash equivalents	\$ 0.5	\$ 0.7
Fair value gains on cash flow hedges	-	0.1
<b>Total finance income</b>	<b>0.5</b>	<b>0.8</b>
<b>Finance costs</b>		
Interest expense on financial liabilities measured at amortized cost	13.1	12.9
Fair value losses on forward contracts	0.3	0.2
Losses on cash flow hedges reclassified from other comprehensive income	-	1.6
Net pension finance costs	1.9	2.1
<b>Total finance costs</b>	<b>15.3</b>	<b>16.8</b>
<b>Finance costs, net</b>	<b>\$ 14.8</b>	<b>\$ 16.0</b>

**10. Discontinued operations**

Certain assets and liabilities related to Empire Theatres have been presented as held for sale as a result of Empire Theatres having reached definitive sales agreements with two unrelated parties as announced on June 27, 2013. Closing of the transactions is subject to satisfaction of customary conditions and relevant regulatory approvals, which includes Competition Bureau approval, and is anticipated to occur by fall of 2013. Empire Theatres is not obligated to close either transaction without closing the other.

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Assets of disposal groups classified as held for sale:

	<b>August 3 2013</b>
Cash	\$ 0.5
Prepaid expenses	1.1
Inventories	1.0
Property and equipment	110.9
Goodwill	32.6
<b>Total</b>	<b>\$ 146.1</b>

Liabilities of disposal groups classified as held for sale:

	<b>August 3 2013</b>
Other long-term liabilities	\$ 14.8
<b>Total</b>	<b>\$ 14.8</b>

Analysis of the operating results of the discontinued operations, and results recognized as a result of re-measurement of the disposal groups and recognition of re-structuring costs is as follows:

	<b>13 Weeks Ended</b>	
	<b>August 3 2013</b>	<b>August 4 2012</b>
Sales	\$ 55.0	\$ 48.6
Expenses, including finance costs of \$0.3 (August 4, 2012 - \$0.4)	53.8	49.2
Earnings (loss) before income taxes of discontinued operations	1.2	(0.6)
Income taxes	0.5	(0.1)
Net earnings (loss) of discontinued operations	0.7	(0.5)
Loss recognized on re-measurement of assets of disposal groups to fair value less cost to sell, net of tax of \$4.0	(12.3)	-
Loss from recognition of re-structuring costs, net of tax of \$2.0	(6.0)	-
Net loss from re-measurement of assets and re-structuring costs	(18.3)	-
<b>Net loss from discontinued operations</b>	<b>\$ (17.6)</b>	<b>\$ (0.5)</b>

Cash flows from discontinued operations:

	<b>13 Weeks Ended</b>	
	<b>August 3 2013</b>	<b>August 4 2012</b>
Operating cash flows	\$ 9.1	\$ (1.6)
Investing cash flows	\$ (4.4)	\$ (2.5)
Financing cash flows	\$ (0.5)	\$ (3.5)

## 11. Earnings per share

The weighted average number of outstanding shares as at August 3, 2013 used for basic earnings per share amounted to 67,948,510 (August 4, 2012 - 67,948,510) shares.

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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:

	<b>13 Weeks Ended</b>	
	<b>August 3 2013</b>	<b>August 4 2012</b>
Weighted average number of shares used in basic earnings per share	<b>67,948,510</b>	67,948,510
Shares deemed to be issued for no consideration in respect of stock-based payments	<b>246,860</b>	92,958
<b>Weighted average number of shares used in diluted earnings per share</b>	<b>68,195,370</b>	68,041,468

Shares contingently issuable in settlement of the subscriptions receipts payable (Note 6) are not included in the calculation of the weighted average number of shares outstanding for either basic or diluted earnings per share.

## 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.

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:

	<b>13 Weeks Ended</b>	
	<b>August 3 2013</b>	<b>August 4 2012</b>
<b>Segmented sales</b>		
Food retailing	<b>\$ 4,609.0</b>	\$ 4,510.0
Investments and other operations	<b>3.4</b>	2.0
	<b>4,612.4</b>	4,512.0
Sales to discontinued operations	<b>3.0</b>	2.9
<b>Total</b>	<b>\$ 4,609.4</b>	\$ 4,509.1

	<b>13 Weeks Ended</b>	
	<b>August 3 2013</b>	<b>August 4 2012</b>
<b>Segmented operating income</b>		
Food retailing	<b>\$ 127.0</b>	\$ 155.9
Investments and other operations		
Crombie REIT	<b>6.7</b>	5.6
Real estate partnerships	<b>3.1</b>	4.6
Other operations, net of corporate expenses	<b>(2.9)</b>	8.9
	<b>6.9</b>	19.1
<b>Total</b>	<b>\$ 133.9</b>	\$ 175.0

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	August 3 2013	August 4 2012
<b>Total assets by segment</b>		
Food retailing	\$ 6,455.1	\$ 6,215.0
Investments and other operations (including discontinued operations)	2,526.2	623.9
	<b>\$ 8,981.3</b>	<b>\$ 6,838.9</b>

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

	13 Weeks Ended	
	August 3 2013	August 4 2012
Total operating income	\$ 133.9	\$ 175.0
Finance costs, net	14.8	16.0
Total	<b>\$ 119.1</b>	<b>\$ 159.0</b>

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 and retail gas locations. 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 from resulting acquisitions for the respective periods:

	13 Weeks Ended	
	August 3 2013	August 4 2012
<b>Stores and retail gas locations</b>		
Inventories	\$ 0.6	\$ 0.2
Property and equipment	5.3	0.5
Goodwill	0.2	0.1
Provisions	(0.2)	(0.1)
Cash consideration	<b>\$ 5.9</b>	<b>\$ 0.7</b>

The businesses acquired contributed sales of \$3.2 and earnings of \$nil for the 13 weeks ended August 3, 2013.

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to purchase substantially all of the assets and select liabilities of Canada Safeway Limited for cash purchase price of \$5,800.0 subject to a working capital adjustment. The agreement provides for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities. Empire's and Sobeys' announcement included their intention that financing for the acquisition will come from a combination of the following: (i) a \$1,844.1, net of fees of \$73.8, Empire equity offering which closed on July 31, 2013; (ii) a planned \$990.0 sale-leaseback of acquired real estate assets as discussed in Note 15; (iii) a \$1,825.0 term loan; iv) the issuance of \$1,000.0 in unsecured notes by Sobeys as discussed in Note 7; (v) other real estate and non-core asset sales; and (vi) available cash on hand. As some of these transactions may not be completed by the time of closing, Scotiabank has provided Empire and Sobeys with fully committed credit facilities for the full purchase price plus transaction expenses required to close the transaction. Crombie REIT has a right of first offer in respect of any real estate sales undertaken by Sobeys. The closing of the acquisition is expected during Sobeys third quarter, and is subject to the fulfillment or waiver of certain customary closing conditions as well as the receipt of required regulatory approvals, including that of the Competition Bureau.

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Acquisition costs of \$10.1 relating to external legal, consulting, due diligence and other closing costs incurred during the 13 weeks ended August 3, 2013 have been included in selling and administrative expenses in the condensed consolidated statements of earnings.

#### **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, restricted cash, receivables, loans and other receivables, bank indebtedness, accounts payable and accrued liabilities, and subscription receipts 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 approximates fair value 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. 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, are estimated using unadjusted quoted prices in active markets. The fair value of derivative financial liabilities, classified as Level 2, are estimated using valuation models that utilize market based observable inputs. The fair value of financial assets included in other assets, classified as Level 3, are determined based on estimates made using available market interest rates as proxies, as no market data exists for these financial instruments. Management believes that its valuation technique is appropriate, however, changes in assumptions could affect the value of these financial assets within the fiscal year. The resolution of these uncertainties could be such that the ultimate fair value of these investments may vary from management's current best estimate. There were no transfers between classes of the fair value hierarchy during the quarter ended August 3, 2013.

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<b>August 3, 2013</b>	<b>FVTPL</b>	<b>Available for Sale</b>	<b>Loans and Receivables</b>	<b>Other Financial Liabilities</b>	<b>Total Carrying Amount</b>	<b>Fair Value</b>
<b>Financial Assets</b>						
Cash and cash equivalents	\$ -	\$ -	\$ 466.7	\$ -	\$ 466.7	\$ 466.7
Restricted cash	-	-	1,807.3	-	1,807.3	1,807.3
Receivables	-	-	359.7	-	359.7	359.7
Loans and other receivables	-	-	110.6	-	110.6	110.6
Investments	-	24.3	-	-	24.3	24.3
Other assets <sup>(1)</sup>	26.8	-	-	-	26.8	26.8
<b>Total financial assets</b>	<b>\$ 26.8</b>	<b>\$ 24.3</b>	<b>\$ 2,744.3</b>	<b>\$ -</b>	<b>\$ 2,795.4</b>	<b>\$ 2,795.4</b>
Fair value level 1	\$ 2.0	\$ 24.3				\$ 26.3
Fair value level 2	-	-				-
Fair value level 3	24.8	-				24.8
	\$ 26.8	\$ 24.3				\$ 51.1
<b>Financial Liabilities</b>						
Bank indebtedness	\$ -	\$ -	\$ -	\$ (3.0)	\$ (3.0)	\$ (3.0)
Accounts payable and accrued liabilities	-	-	-	(1,798.4)	(1,798.4)	(1,798.4)
Subscription receipts payable	-	-	-	(1,844.1)	(1,844.1)	(1,844.1)
Long-term debt	-	-	-	(945.3)	(945.3)	(985.7)
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (4,590.8)</b>	<b>\$ (4,590.8)</b>	<b>\$ (4,631.2)</b>
Fair value level 1	\$ -	\$ -				\$ -
Fair value level 2	-	-				-
Fair value level 3	-	-				-
	\$ -	\$ -				\$ -

<sup>(1)</sup> The total carrying value of financial assets included in other assets is \$26.8.

Fair value Level 3 assets include asset backed commercial paper. The following table summarizes the change in fair value recorded:

	<b>August 3, 2013 (13 Weeks Ended)</b>	<b>May 4, 2013 (52 Weeks Ended)</b>	<b>August 4, 2012 (13 Weeks Ended)</b>
<b>Financial Assets</b>			
Balance, beginning of period	\$ 24.8	\$ 23.8	\$ 23.8
Fair value gains, net of losses, recognized in net earnings	-	1.0	-
<b>Balance, end of period</b>	<b>\$ 24.8</b>	<b>\$ 24.8</b>	<b>\$ 23.8</b>

**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.

**Cash flow hedges**

The Company's cash flow hedge consists principally of foreign currency swaps. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. 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 year.

Cash flows from cash flow hedges are expected to flow over the next four years until fiscal 2018, and are expected to be recognized in net earnings over this period, and, in the case of foreign currency swaps, over the life of the related assets in which a portion of the initial cost is being hedged.

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**15. Related party transactions**

The Company has related party transactions with Crombie REIT. The Company holds a 42.7 percent ownership interest and accounts for its investment using the equity method. As a result of the conversion of Crombie REIT debentures during the first quarter of the current fiscal year, the Company's interest in Crombie REIT decreased from 42.8 to 42.7 percent.

On July 3, 2012, the Company purchased \$24.0 of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of \$60.0. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00% per annum and each \$1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$20.10 per unit.

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT has agreed to indirectly acquire 68 properties included in the acquisition of substantially all of the assets of Canada Safeway Limited for \$990.0. The sale-leaseback transaction is subject to customary adjustments and is conditional on a number of conditions, including the Canada Safeway acquisition closing.

On closing of the acquisition of the 68 properties, the Company has agreed to purchase \$150.0 of Class B units (which are convertible on a one-for-one basis into units of Crombie REIT.) Consequently, the Company's interest in Crombie REIT will be reduced from 42.7 percent to 42.1 percent

**16. Contingent liabilities**

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

**17. Employee future benefits**

During the first quarter of fiscal 2014, the net employee future benefits expense reported in net earnings was \$9.7 (August 4, 2012 - \$10.0). Actuarial gains (losses) before taxes on defined benefit pension plans for the 13 weeks ended August 3, 2013 were \$43.9 (August 4, 2012 - \$(17.6)). These gains (losses) have been recognized in other comprehensive income.

**18. 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 August 3, 2013 there were 131,941 (August 4, 2012 - 124,503) DSUs outstanding. During the 13 weeks ended August 3, 2013, the compensation expense was \$1.8 (August 4, 2012 - \$0.1).



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**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 August 3, 2013, there were 49,387 (August 4, 2012 – 41,461) PSUs outstanding. During the 13 weeks ended August 3, 2013, the compensation expense was \$0.4 (August 4, 2012 - \$0.2).

**Stock option plan**

During the first quarter of fiscal 2014, the Company granted an additional 31,698 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 \$10.50 per option (August 4, 2012 - \$8.23 per option) was determined using the Black Scholes model with the following weighted average assumptions.

Share price	\$77.54
Expected life	5.25 years
Risk-free interest rate	1.70%
Expected volatility (based on recent 5-year history)	15.1%
Dividend yield	1.34%

The compensation cost relating to the 13 weeks ended August 3, 2013 was \$0.1 (August 4, 2012 - \$0.2) 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 \$0.1 (August 4, 2012 - \$0.2).

# SHAREHOLDER AND INVESTOR INFORMATION

## EMPIRE COMPANY LIMITED

Head Office:  
115 King St.  
Stellarton, Nova Scotia  
B0K 1S0  
Telephone: (902) 755-4440  
Fax: (902) 755-6477  
www.empireco.ca

## INVESTOR RELATIONS AND INQUIRIES

Shareholders, analysts and investors should direct their financial inquiries or requests to:  
Stewart H. Mahoney, CFA  
Vice President, Treasury & Investor Relations  
E-mail: investor.relations@empireco.ca

Communication regarding investor records, including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CST Trust Company.

## AFFILIATED COMPANY WEB ADDRESSES

www.sobeyscorporate.com

## OUTSTANDING SHARES

As of September 12, 2013

Non-Voting Class A shares	33,687,747
Class B common shares, voting	34,260,763

## SHAREHOLDERS' ANNUAL GENERAL MEETING

September 12, 2013, at 11:00a.m. (ADT)  
Empire Studio 7 Cinemas  
612 East River Road  
New Glasgow, Nova Scotia

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange

## STOCK SYMBOLS

Non-Voting Class A shares – EMP.A

## 52-WEEK AVERAGE DAILY TRADING VOLUME (TSX: EMP.A)

96,649

## DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2014

Record Date	Payment Date
July 15, 2013	July 31, 2013
October 15, 2013	October 31, 2013
January 15, 2014*	January 31, 2014*
April 15, 2014*	April 30, 2014*

\*Subject to approval by the Board of Directors

## TRANSFER AGENT

CST Trust Company  
Investor Correspondence  
P.O. Box 700 Station B  
Montreal Quebec  
H3B 3K3  
Telephone: (800) 387-0825  
E-mail: inquiries@canstockta.com

## MULTIPLE MAILINGS

If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact CST Trust Company at (800) 387-0825 to eliminate the multiple mailings.

## BANKERS

Bank of Montreal  
Bank of Nova Scotia  
Bank of Tokyo-Mitsubishi  
Canadian Imperial Bank of Commerce  
National Bank of Canada  
Rabobank  
TD Bank Financial Group

## SOLICITORS

Stewart McKelvey  
Halifax, Nova Scotia

## AUDITORS

Grant Thornton, LLP  
Halifax, Nova Scotia



# A passion *for food*

A passion for food has been the key ingredient of our success since J.W. Sobeys opened for business in Stellarton, Nova Scotia more than a century ago. Today, Empire is a leading Canadian public company with annual sales of more than \$17 billion and steady prospects for continuing growth. We'll continue to make the most of our opportunities by concentrating our energy and resources on the businesses we know best – food retailing and related real estate.

[www.empireco.ca](http://www.empireco.ca)

**EMPIRE**  
COMPANY LIMITED

