

# THE POWER OF ONE

SECOND QUARTER REPORT  
26 WEEKS ENDED NOVEMBER 3, 2012



EMPIRE  
COMPANY LIMITED

# 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 corporate investment activities. The Company’s financial results are segmented into two separate operating segments: Food Retailing and Investments and Other Operations. Food Retailing is carried out through its wholly-owned subsidiary, Sobeys Inc. (“Sobeys”). Sobeys 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 consist of: (1) a 43.0 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 retail, office and mixed-use properties; (2) a 40.7 percent ownership interest in Genstar Development Partnership, a 45.9 percent interest in Genstar Development Partnership II, and 42.1 percent interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P., and a 45.8 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as “Genstar”). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States; (3) wholly-owned ETL Canada Holdings Limited (“Empire Theatres”), which is the second largest movie exhibitor in Canada; and (4) Kepec Resources Limited (“Kepec”), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over \$16 billion in annual sales and approximately \$6.9 billion in assets, Empire and its related companies 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 second quarter results on a conference call held on Thursday, December 13, 2012. 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”, “could”, “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 SECOND QUARTER RESULTS

Empire Company Limited (TSX: EMP.A) announced financial results for its second quarter ended November 3, 2012. For the second quarter, the Company recorded net earnings, net of minority interest, of \$93.3 million (\$1.37 per share) compared to \$78.1 million (\$1.15 per share) in the second quarter last year, a \$15.2 million or 19.5 percent increase.

Adjusted net earnings, net of minority interest, in the second quarter were \$85.7 million (\$1.26 per share) compared to \$74.9 million (\$1.10 per share) in the second quarter last year, a \$10.8 million or 14.4 percent increase.

### Second Quarter Highlights

- Sales of \$4.40 billion, up \$367.8 million or 9.1 percent (up 2.7 percent excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations).
- Sobeys' same-store sales increased 1.3 percent.
- Operating income of \$140.9 million versus \$125.8 million last year.
- Adjusted net earnings <sup>(1)</sup>, net of minority interest, of \$85.7 million (\$1.26 per share) versus \$74.9 million (\$1.10 per share) last year.
- Net earnings, net of minority interest, of \$93.3 million (\$1.37 per share) compared to \$78.1 million (\$1.15 per share) last year.
- Funded debt to total capital ratio of 21.5 percent compared to 25.3 percent last year.

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

The Board of Directors declared a quarterly dividend of 24.0 cents per share on both the Non-Voting Class A shares and the Class B common shares that will be payable on January 31, 2013 to shareholders of record on January 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.

We are pleased with Empire's second quarter financial performance and the dedication and hard work of our employees and franchisees. During the second quarter we continued to execute on our strategic initiatives which resulted in profitable growth despite a highly competitive marketplace. We remain committed to further enhancing the shopping experience of our customers and improving our cost structure and productivity.



Paul D. Sobey  
President and Chief Executive Officer  
December 13, 2012

# EMPIRE

COMPANY LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 AND 26 WEEKS ENDED NOVEMBER 3, 2012

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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 and 26 weeks ended November 3, 2012 compared to the 13 and 26 weeks ended November 5, 2011. This discussion and analysis should be read in conjunction with the Company's unaudited consolidated financial statements and the accompanying notes for the 13 and 26 weeks ended November 3, 2012, the audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 5, 2012, and the related annual MD&A. Additional information about the Company, including the 2012 Annual Report, the 2012 Annual Information Form, the 2012 audited annual financial statements and the 2012 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 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 consolidated financial statements include the accounts of Empire, its subsidiaries and Special Purpose Entities ("SPEs"), which the Company is required to consolidate.

The information contained in this MD&A is current to December 13, 2012, unless otherwise noted. There have been no material changes to disclosures as contained in the "Outlook", "Critical Accounting Estimates", "Contingencies" or "Risk Management" sections of the Company's fiscal 2012 MD&A 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 that its operational and capital structure is sufficient to satisfy 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 expectation that the sale of its petroleum and natural gas properties has a purchase price that approximates the carrying value of these assets, which may be impacted by the final post closing adjustments;
- 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;
- Sobeys' expectations regarding the timing of the new distribution centre under construction in Québec and that it will reduce overall business costs, which could be impacted by construction delays and the number of positions eliminated at other distribution centres;
- Sobeys' 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; and
- Sobeys' expectations relating to the acquisition of 236 retail gas locations and related convenience store operations from Shell Canada and the accompanying fuel volumes, which may be impacted by demand.

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 5, 2012.

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 December 13, 2012 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 are as follows:

- Adjusted sales are sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012.
- 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 minority 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.

| (\$ in millions)            | 13 Weeks Ended |              | 26 Weeks Ended |              |
|-----------------------------|----------------|--------------|----------------|--------------|
|                             | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| Operating income            | \$ 140.9       | \$ 125.8     | \$ 316.0       | \$ 274.7     |
| Depreciation                | 78.4           | 75.1         | 157.7          | 151.2        |
| Amortization of intangibles | 10.3           | 9.4          | 20.1           | 18.6         |
| EBITDA                      | \$ 229.6       | \$ 210.3     | \$ 493.8       | \$ 444.5     |

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- 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 minority interest.
- Net total capital is total capital less cash and cash equivalents.
- 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.
- 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.
- Adjusted net earnings is net earnings excluding items which are considered not indicative of underlying business operating performance.
- Book value per common share is shareholders’ equity, net of minority interest, less preferred shares, divided by total common shares outstanding.

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 November 3, 2012, May 5, 2012 and November 5, 2011, respectively.

| (\$ in millions)                                     | Nov. 3, 2012 | May 5, 2012 | Nov. 5, 2011 |
|--|--------------|-------------|--------------|
| Bank indebtedness                                    | \$ 34.3      | \$ 4.4      | \$ 6.0       |
| Long-term debt due within one year                   | 46.5         | 237.3       | 238.2        |
| Long-term debt                                       | 893.3        | 889.1       | 860.2        |
| Funded debt  | 974.1        | 1,130.8     | 1,104.4      |
| Less: cash and cash equivalents                      | 389.9        | 510.2       | 500.3        |
| Net funded debt                                      | 584.2        | 620.6       | 604.1        |
| Total shareholders' equity, net of minority interest | 3,554.1      | 3,396.3     | 3,267.3      |
| Net total capital                                    | \$ 4,138.3   | \$ 4,016.9  | \$ 3,871.4   |

| (\$ in millions)                                     | Nov. 3, 2012 | May 5, 2012 | Nov. 5, 2011 |
|--|--------------|-------------|--------------|
| Funded debt  | \$ 974.1     | \$ 1,130.8  | \$ 1,104.4   |
| Total shareholders' equity, net of minority interest | 3,554.1      | 3,396.3     | 3,267.3      |
| Total capital  | \$ 4,528.2   | \$ 4,527.1  | \$ 4,371.7   |

## OVERVIEW OF THE BUSINESS

Empire's key businesses include food retailing and corporate investment activities. 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, 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 consists of:

1. A 43.0 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, with a future growth strategy focused primarily on the acquisition of retail properties;
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 45.9 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., and a 45.8 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States;
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"), which is the second largest movie exhibitor in Canada. As at November 3, 2012, Empire Theatres owned 53 locations representing 438 screens; and
4. Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over \$16 billion in annual sales and approximately \$6.9 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.



## CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for 13 and 26 weeks ended November 3, 2012 relative to the same period last year.

| (\$ in millions, except per share amounts)                             | 13 Weeks Ended |            |              |            | 26 Weeks Ended |            |              |            |
|--|----------------|------------|--------------|------------|----------------|------------|--------------|------------|
|  | Nov. 3, 2012   |            | Nov. 5, 2011 |            | Nov. 3, 2012   |            | Nov. 5, 2011 |            |
|  |                | % of Sales |              | % of Sales |                | % of Sales |              | % of Sales |
| Sales  | \$ 4,404.1     | 100.00%    | \$ 4,036.3   | 100.00%    | \$ 8,961.8     | 100.00%    | \$ 8,190.5   | 100.00%    |
| EBITDA   | 229.6          | 5.21%      | 210.3        | 5.21%      | 493.8          | 5.51%      | 444.5        | 5.43%      |
| Adjusted EBITDA <sup>(1)</sup>   | 219.6          | 4.99%      | 206.1        | 5.11%      | 476.3          | 5.31%      | 434.6        | 5.31%      |
| Operating income   | 140.9          | 3.20%      | 125.8        | 3.12%      | 316.0          | 3.53%      | 274.7        | 3.35%      |
| Net earnings, net of minority interest                                 | 93.3           | 2.12%      | 78.1         | 1.93%      | 202.2          | 2.26%      | 167.3        | 2.04%      |
| Adjusted net earnings,<br>net of minority interest <sup>(1)</sup>      | 85.7           | 1.95%      | 74.9         | 1.86%      | 189.1          | 2.11%      | 160.0        | 1.95%      |
| <b>Basic earnings per share</b>  |                |            |              |            |                |            |              |            |
| Net earnings, net of minority interest                                 | \$ 1.37        |            | \$ 1.15      |            | \$ 2.97        |            | \$ 2.46      |            |
| Adjusted net earnings,<br>net of minority interest <sup>(1)</sup>      | \$ 1.26        |            | \$ 1.10      |            | \$ 2.78        |            | \$ 2.36      |            |
| Basic weighted average number<br>of shares outstanding (in millions)   | 67.9           |            | 67.9         |            | 67.9           |            | 67.9         |            |
| <b>Diluted earnings per share</b>                                      |                |            |              |            |                |            |              |            |
| Net earnings, net of minority interest                                 | \$ 1.37        |            | \$ 1.15      |            | \$ 2.97        |            | \$ 2.46      |            |
| Adjusted net earnings,<br>net of minority interest <sup>(1)</sup>      | \$ 1.26        |            | \$ 1.10      |            | \$ 2.78        |            | \$ 2.35      |            |
| Diluted weighted average number<br>of shares outstanding (in millions) | 68.1           |            | 68.0         |            | 68.1           |            | 68.0         |            |
| Dividends per share  | \$ 0.240       |            | \$ 0.225     |            | \$ 0.480       |            | \$ 0.450     |            |

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

## MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 13 and 26 weeks ended November 3, 2012 compared to the 13 and 26 weeks ended November 5, 2011.

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 "Operating Performance by Segment" in this MD&A.

### Sales

Consolidated sales for the second quarter were \$4.40 billion compared to \$4.04 billion for the same quarter last year, an increase of \$367.8 million or 9.1 percent. The increase in sales is largely driven by a \$361.3 million or 9.1 percent growth in sales from the food retailing segment.

For the first half of fiscal 2013, consolidated sales were \$8.96 billion compared to \$8.19 billion in the first half of fiscal 2012, an increase of \$771.3 million or 9.4 percent. During this period, sales from the food retailing segment increased \$765.2 million or 9.5 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.

| (\$ in millions)   | 13 Weeks Ended    |                   | (\$)<br>Change | (%)<br>Change | 26 Weeks Ended    |                   | (\$)<br>Change | (%)<br>Change |
|--|-------------------|-------------------|----------------|---------------|-------------------|-------------------|----------------|---------------|
|  | Nov. 3, 2012      | Nov. 5, 2011      |                |               | Nov. 3, 2012      | Nov. 5, 2011      |                |               |
| <b>Food retailing segment</b>  |                   |                   |                |               |                   |                   |                |               |
| Sobeys' reported sales   | \$ 4,330.4        | \$ 3,974.5        | \$355.9        | 9.0%          | \$ 8,827.1        | \$ 8,076.3        | \$750.8        | 9.3%          |
| Reclassification of lease revenue from owned property recorded by Sobeys | 15.0              | 9.3               |                |               | 28.3              | 13.6              |                |               |
|  | <b>4,345.4</b>    | <b>3,983.8</b>    | <b>361.6</b>   | <b>9.1%</b>   | <b>8,855.4</b>    | <b>8,089.9</b>    | <b>765.5</b>   | <b>9.5%</b>   |
| Elimination of inter-segment   | (3.1)             | (2.8)             |                |               | (6.0)             | (5.7)             |                |               |
| Empire's food retailing segmented sales                                  | <b>4,342.3</b>    | <b>3,981.0</b>    | <b>361.3</b>   | <b>9.1%</b>   | <b>8,849.4</b>    | <b>8,084.2</b>    | <b>765.2</b>   | <b>9.5%</b>   |
| <b>Investments &amp; other operations segment</b>                        |                   |                   |                |               |                   |                   |                |               |
| Recorded sales   | 61.8              | 55.3              | 6.5            | 11.8%         | 112.4             | 106.4             | 6.0            | 5.6%          |
| Elimination of inter-segment   | -                 | -                 |                |               | -                 | (0.1)             |                |               |
| Empire's investments and other operations segmented sales                | <b>61.8</b>       | <b>55.3</b>       | <b>6.5</b>     | <b>11.8%</b>  | <b>112.4</b>      | <b>106.3</b>      | <b>6.1</b>     | <b>5.7%</b>   |
| Empire consolidated sales  | <b>\$ 4,404.1</b> | <b>\$ 4,036.3</b> | <b>\$367.8</b> | <b>9.1%</b>   | <b>\$ 8,961.8</b> | <b>\$ 8,190.5</b> | <b>\$771.3</b> | <b>9.4%</b>   |

During the second quarter, Sobeys reported sales of \$4.33 billion, an increase of \$355.9 million or 9.0 percent from the \$3.97 billion reported in the second quarter of fiscal 2012. Sobeys' same-store sales increased 1.3 percent during the second quarter of fiscal 2013.

The growth in Sobeys' second quarter reported sales was a direct result of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 and Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

For the first half of fiscal 2013, Sobeys reported sales of \$8.83 billion, an increase of \$750.8 million or 9.3 percent from the \$8.08 billion reported last year. Sobeys' same-store sales increased 1.5 percent in the first half of fiscal 2013 compared to the same period last year.

The following table shows a reconciliation of sales reported by Sobeys for the 13 and 26 weeks ended November 3, 2012 compared to the same periods in the prior year. Excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, Sobeys' reported sales increased \$98.9 million or 2.5 percent in the second quarter of fiscal 2013 and \$235.7 million or 2.9 percent for the first half of the year.

| (\$ in millions)  | 13 Weeks Ended |              | (\$)     | (%)  | 26 Weeks Ended |            | (\$)     | (%)  |
|---|----------------|--------------|----------|------|----------------|------------|----------|------|
|   | Nov. 3, 2012   | Nov. 5, 2011 |          |      | Change         | Change     |          |      |
| Sales (reported by Sobeys)  | \$ 4,330.4     | \$ 3,974.5   | \$ 355.9 | 9.0% | \$ 8,827.1     | \$ 8,076.3 | \$ 750.8 | 9.3% |
| Adjustments:  |                |              |          |      |                |            |          |      |
| Impact of acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012 | (257.0)        | -            | (257.0)  |      | (515.1)        | -          | (515.1)  |      |
| Adjusted sales  | \$ 4,073.4     | \$ 3,974.5   | \$ 98.9  | 2.5% | \$ 8,312.0     | \$ 8,076.3 | \$ 235.7 | 2.9% |

Empire's investments and other operations segment recorded sales of \$61.8 million in the second quarter of fiscal 2013 compared to \$55.3 million in the second quarter last year. For the first half of fiscal 2013, investments and other operations recorded sales of \$112.4 million compared to the \$106.3 million for the same period last year.

Please refer to the section entitled "Operating Performance by Segment" for an explanation of the change in sales by segment.

## EBITDA

Consolidated EBITDA for the 13 weeks ended November 3, 2012 increased \$19.3 million or 9.2 percent to \$229.6 million from \$210.3 million in the second quarter last year. EBITDA margin remained unchanged at 5.21 percent in the second quarter of fiscal 2013 compared to the prior year. Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, consolidated adjusted EBITDA for the second quarter was \$219.6 million compared to \$206.1 million last year, an increase of \$13.5 million or 6.6 percent.

Consolidated EBITDA for the 26 weeks ended November 3, 2012 increased \$49.3 million or 11.1 percent to \$493.8 million from \$444.5 million in the same period last year. EBITDA margin increased to 5.51 percent in the first half of fiscal 2013 from 5.43 percent in the same period last year. Adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for the first half of fiscal 2013 was \$476.3 million compared to \$434.6 million last year, an increase of \$41.7 million or 9.6 percent.

| (\$ in millions)                                 | 13 Weeks Ended |              | 26 Weeks Ended |              |
|--|----------------|--------------|----------------|--------------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| EBITDA (consolidated)                            | \$ 229.6       | \$ 210.3     | \$ 493.8       | \$ 444.5     |
| Adjustments:                                     |                |              |                |              |
| Sobeys' organizational realignment costs         | 0.9            | 4.1          | 3.8            | 4.1          |
| Sobeys Québec distribution network restructuring | (0.5)          | 0.7          | 2.6            | 1.1          |
| Gain on disposal of assets                       | (10.4)         | (1.7)        | (11.8)         | (5.1)        |
| Dilution gains                                   | -              | (7.3)        | (12.1)         | (10.0)       |
|  | (10.0)         | (4.2)        | (17.5)         | (9.9)        |
| Adjusted EBITDA                                  | \$ 219.6       | \$ 206.1     | \$ 476.3       | \$ 434.6     |

Please refer to the section entitled "Operating Performance by Segment" for an explanation of the change in EBITDA for each segment.

## Operating Income

For the 13 weeks ended November 3, 2012, Empire recorded operating income of \$140.9 million, an increase of \$15.1 million or 12.0 percent from the \$125.8 million recorded for the 13 weeks ended November 5, 2011.

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

- Sobeys' operating income contribution to Empire in the 13 weeks ended November 3, 2012 totalled \$127.7 million, an increase of \$17.9 million or 16.3 percent from the \$109.8 million recorded in the same quarter last year.
- Investments and other operations contributed operating income of \$13.2 million in the 13 weeks ended November 3, 2012 compared to \$16.0 million in the 13 weeks ended November 5, 2011, a decrease of \$2.8 million or 17.5 percent.
  - Equity accounted earnings generated by Crombie REIT during the second quarter were \$4.2 million compared to \$4.8 million in the prior year, a decrease of \$0.6 million.
  - Real estate partnerships (Genstar) contributed operating income of \$4.6 million, an increase of \$1.7 million from the \$2.9 million recorded in the same quarter of the prior year.
  - Other operations (net of corporate expenses) contributed operating income of \$4.4 million compared to \$8.3 million last year, a decrease of \$3.9 million.

For the 26 weeks ended November 3, 2012 operating income equalled \$316.0 million, an increase of \$41.3 million or 15.0 percent from the comparable period last year. Operating income from Sobeys improved to \$284.0 million for the first half of fiscal 2013 from \$245.2 million last year, an increase of \$38.8 million or 15.8 percent. Investments and other operations' operating income in the first half of fiscal 2013 increased \$2.5 million or 8.5 percent to \$32.0 million from \$29.5 million last year.

Please refer to the section entitled "Operating Performance by Segment" for an explanation of the change in operating income for each segment.

## Finance Costs

Finance costs, net of finance income, in the second quarter amounted to \$12.1 million, a decrease of \$2.9 million or 19.3 percent from the \$15.0 million recorded last year. This decrease is primarily the result of a decrease in interest expense of \$3.2 million compared to the same period in the prior year. The decrease in interest expense is due to lower consolidated funded debt levels which were partially associated with the repayment of Sobeys' \$200.0 million non-revolving term credit facility on July 23, 2012. EBITDA to interest expense (using trailing four-quarter EBITDA and interest expense) improved to 16.6 times at the end of the second quarter of fiscal 2013 from 13.1 times at the end of the second quarter last year.

Finance costs, net of finance income, for the 26 weeks ended November 3, 2012 were \$27.0 million, an improvement of \$4.6 million or 14.6 percent from the same period last year. This improvement is primarily the result of a decrease in interest expense of \$5.1 million compared to the same period in the prior year. As noted above, the decrease in interest expense is due to lower consolidated funded debt levels.

Consolidated funded debt was \$974.1 million at November 3, 2012 compared to \$1,104.4 million at November 5, 2011, a \$130.3 million or 11.8 percent decrease. The decrease in consolidated funded debt from the prior year was primarily due to a \$207.8 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of \$77.5 million. Please refer to the "Liabilities" sub-section 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 second quarter of fiscal 2013 was 26.2 percent compared to 27.2 percent reported in the second quarter last year. The effective income tax rate for the first half of fiscal 2013 was 26.9 percent versus 27.1 percent in the first half of last year.

The decrease experienced in the effective income tax rate in the 13 weeks ended November 3, 2012 is primarily due to a previously enacted decrease in the federal statutory rate, offset with changes in the timing of the realization of tax benefits in the second quarter of fiscal 2013 compared to the same period in the prior year.

## Net Earnings

Consolidated net earnings, net of minority interest, in the second quarter equalled \$93.3 million (\$1.37 per share) compared to \$78.1 million (\$1.15 per share) in the second quarter last year. The increase of \$15.2 million or 19.5 percent is due to higher operating income and lower finance costs, net of finance income, partially offset by higher income taxes, as mentioned.

Consolidated net earnings, net of minority interest, for the 26 weeks ended November 3, 2012 equalled \$202.2 million (\$2.97 per share) compared to \$167.3 million (\$2.46 per share) in the same period last year. The increase of \$34.9 million or 20.9 percent is due to higher operating income and lower finance costs, net of finance income, partially offset by higher income taxes, as mentioned.

The following table presents Empire's segmented net earnings, net of minority interest, for the 13 and 26 weeks ended November 3, 2012 compared to the 13 and 26 weeks ended November 5, 2011.

| (\$ in millions, except per share amounts, net of tax) | 13 Weeks Ended |              |             | 26 Weeks Ended |              |             |
|--|----------------|--------------|-------------|----------------|--------------|-------------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | (\$) Change | Nov. 3, 2012   | Nov. 5, 2011 | (\$) Change |
| Food retailing   | \$ 85.0        | \$ 68.4      | \$ 16.6     | \$ 182.0       | \$ 150.0     | \$ 32.0     |
| Investments and other operations                       | 8.3            | 9.7          | (1.4)       | 20.2           | 17.3         | 2.9         |
| Consolidated   | \$ 93.3        | \$ 78.1      | \$ 15.2     | \$ 202.2       | \$ 167.3     | \$ 34.9     |
| EPS (fully diluted)                                    | \$ 1.37        | \$ 1.15      | \$ 0.22     | \$ 2.97        | \$ 2.46      | \$ 0.51     |

## Adjusted Net Earnings

The table below adjusts reported net earnings, net of minority interest, for items which are considered not indicative of underlying business operating performance.

| (\$ in millions, except per share amounts, net of tax)       | 13 Weeks Ended |              | 26 Weeks Ended |              |
|--|----------------|--------------|----------------|--------------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| Net earnings, net of minority interest                       | \$ 93.3        | \$ 78.1      | \$ 202.2       | \$ 167.3     |
| Adjustments:   |                |              |                |              |
| Sobeys' organizational realignment costs                     | 0.7            | 2.9          | 2.8            | 2.9          |
| Sobeys Québec distribution network restructuring             | (0.4)          | 0.5          | 1.9            | 0.8          |
| Gain on disposal of assets                                   | (7.9)          | (1.5)        | (9.2)          | (4.0)        |
| Dilution gains   | -              | (5.1)        | (8.6)          | (7.0)        |
|  | (7.6)          | (3.2)        | (13.1)         | (7.3)        |
| Adjusted net earnings, net of minority interest              | \$ 85.7        | \$ 74.9      | \$ 189.1       | \$ 160.0     |
| Adjusted net earnings, net of minority interest, by segment: |                |              |                |              |
| Food retailing   | \$ 77.4        | \$ 70.1      | \$ 177.0       | \$ 149.0     |
| Investments and other operations                             | 8.3            | 4.8          | 12.1           | 11.0         |
| Adjusted net earnings, net of minority interest              | \$ 85.7        | \$ 74.9      | \$ 189.1       | \$ 160.0     |
| Adjusted EPS (fully diluted)                                 | \$ 1.26        | \$ 1.10      | \$ 2.78        | \$ 2.35      |

After factoring in the impact of the above-noted items, in the second quarter Empire recorded adjusted net earnings, net of minority interest, of \$85.7 million (\$1.26 per share) compared to \$74.9 million (\$1.10 per share) in the second quarter last year.

For the 26 weeks ended November 3, 2012, after factoring in the impact of the above-noted items, Empire recorded adjusted net earnings, net of minority interest, of \$189.1 million (\$2.78 per share) compared to \$160.0 million (\$2.35 per share) in the same period of the prior year.

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

## QUARTERLY RESULTS OF OPERATIONS

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

| (\$ in millions, except<br>per share amounts)                          | Fiscal 2013                   |                               |                              | Fiscal 2012                   |                               |                               | Fiscal 2011                  |                                |  |
|--|-------------------------------|-------------------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------------------|--------------------------------|--|
|  | Q2                            | Q1                            | Q4                           | Q3                            | Q2                            | Q1                            | Q4                           | Q3                             |  |
|  | (13 Weeks)<br>Nov. 3,<br>2012 | (13 Weeks)<br>Aug. 4,<br>2012 | (13 Weeks)<br>May 5,<br>2012 | (13 Weeks)<br>Feb. 4,<br>2012 | (13 Weeks)<br>Nov. 5,<br>2011 | (13 Weeks)<br>Aug. 6,<br>2011 | (14 Weeks)<br>May 7,<br>2011 | (13 Weeks)<br>Jan. 29,<br>2011 |  |
| Sales  | \$ 4,404.1                    | \$ 4,557.7                    | \$ 4,073.8                   | \$ 3,984.8                    | \$ 4,036.3                    | \$ 4,154.2                    | \$ 4,149.8                   | \$ 3,877.0                     |  |
| Operating income   | 140.9                         | 175.1                         | 136.4                        | 123.2                         | 125.8                         | 148.9                         | 122.4                        | 140.1                          |  |
| Net earnings, net of minority interest                                 | 93.3                          | 108.9                         | 92.1                         | 80.0                          | 78.1                          | 89.2                          | 82.5                         | 88.9                           |  |
| <b>Per share information, basic</b>                                    |                               |                               |                              |                               |                               |                               |                              |                                |  |
| Net earnings, net of minority interest                                 | \$ 1.37                       | \$ 1.60                       | \$ 1.35                      | \$ 1.18                       | \$ 1.15                       | \$ 1.31                       | \$ 1.21                      | \$ 1.31                        |  |
| Basic weighted average number<br>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, net of minority interest                                 | \$ 1.37                       | \$ 1.60                       | \$ 1.35                      | \$ 1.17                       | \$ 1.15                       | \$ 1.31                       | \$ 1.21                      | \$ 1.31                        |  |
| Diluted weighted average number<br>of shares outstanding (in millions) | 68.1                          | 68.0                          | 68.0                         | 68.0                          | 68.0                          | 68.0                          | 68.0                         | 68.0                           |  |

As displayed 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 has been 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, in the fourth quarter of fiscal 2012, the acquisition of 236 retail gas locations and related convenience store operations. Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures.

Consolidated sales and net earnings, net of minority interest, have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclical nature of both residential and commercial real estate, and by other risk factors as outlined in the fiscal 2012 annual MD&A.

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

## **OPERATING 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. The five distinct store formats deployed by Sobeys to satisfy its customers' principal shopping requirements are the full service, fresh service, convenience service, community service and discount formats. 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, IGA *extra*, Thrifty Foods, Foodland and FreshCo.

For the 13 and 26 weeks ended November 3, 2012, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 15 and 27 stores, respectively (fiscal 2012 - 23 and 37 stores). During the first half of fiscal 2013, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. The network acquired includes corporate owned and dealer operated locations and is expected to have annual fuel volumes in excess of one billion litres.

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

During the second quarter of fiscal 2013, Sobeys continued to make progress in 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.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 13 and 26 weeks ended November 3, 2012, \$3.9 million and \$8.7 million, respectively, of pre-tax costs were incurred related to these initiatives (fiscal 2012 - \$2.6 million and \$5.8 million).

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. Total costs associated with this initiative for the 13 and 26 weeks ended November 3, 2012 were \$0.9 million and \$3.8 million, respectively (fiscal 2012 - \$4.1 million and \$4.1 million). These expenses relate mainly to consulting and severance costs of \$1.7 million and \$2.1 million, respectively (fiscal 2012 - \$2.7 million and \$1.4 million), year-to-date.

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 is expected to become operational during the second half 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 13 and 26 weeks ended November 3, 2012, Sobeys recorded severance (reversals) costs associated with the distribution network in Québec of \$(0.5) million and \$2.6 million, respectively (fiscal 2012 - \$0.7 million and \$1.1 million).

The table below summarizes Sobeys' contribution to Empire.

| (\$ in millions)  | 13 Weeks Ended <sup>(1)</sup> |              | (\$)    |       | 26 Weeks Ended <sup>(1)</sup> |              | (\$)     |       | (\$)   |     |
|---|-------------------------------|--------------|---------|-------|-------------------------------|--------------|----------|-------|--------|-----|
|   | Nov. 3, 2012                  | Nov. 5, 2011 | Change  | (%)   | Nov. 3, 2012                  | Nov. 5, 2011 | Change   | (%)   | Change | (%) |
| Sales   | \$ 4,342.3                    | \$ 3,981.0   | \$361.3 | 9.1%  | \$ 8,849.4                    | \$ 8,084.2   | \$ 765.2 | 9.5%  |        |     |
| EBITDA  | 212.0                         | 190.4        | 21.6    | 11.3% | 453.2                         | 407.1        | 46.1     | 11.3% |        |     |
| Adjusted EBITDA <sup>(2)</sup>                                    | 202.0                         | 193.2        | 8.8     | 4.6%  | 447.1                         | 406.2        | 40.9     | 10.1% |        |     |
| Operating income  | 127.7                         | 109.8        | 17.9    | 16.3% | 284.0                         | 245.2        | 38.8     | 15.8% |        |     |
| Adjusted operating income <sup>(2)</sup>                          | 117.7                         | 112.6        | 5.1     | 4.5%  | 277.9                         | 244.3        | 33.6     | 13.8% |        |     |
| Net earnings,<br>net of minority interest                         | 85.0                          | 68.4         | 16.6    | 24.3% | 182.0                         | 150.0        | 32.0     | 21.3% |        |     |
| Adjusted net earnings,<br>net of minority interest <sup>(2)</sup> | 77.4                          | 70.1         | 7.3     | 10.4% | 177.0                         | 149.0        | 28.0     | 18.8% |        |     |

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

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

## Sales

Empire's food retailing segment contributed sales of \$4.34 billion for the 13 weeks ended November 3, 2012 compared to \$3.98 billion for the same quarter last year, an increase of \$361.3 million or 9.1 percent. Excluding sales of \$257.0 million related to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, the food retailing segment realized a sales increase of \$104.3 million or 2.6 percent. During the second quarter, Sobeys' same-store sales increased by 1.3 percent compared to the second quarter of fiscal 2012.

For the 26 weeks ended November 3, 2012, sales contributed by Empire's food retailing segment were \$8.85 billion compared to \$8.08 billion last year, an increase of \$765.2 million or 9.5 percent. Excluding sales of \$515.1 million related to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, the food retailing segment realized a sales increase of \$250.1 million or 3.1 percent. Same-store sales grew by 1.5 percent in the first half of fiscal 2013 compared to the same period last year.

The growth in Sobeys' reported second quarter sales was a direct result of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 and Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution, and product and services innovation.

## Gross Profit

Sobeys recorded gross profit of \$996.2 million in the second quarter, an increase of \$45.7 million over the second quarter last year. Gross margin decreased 91 basis points from 23.91 percent in the second quarter of fiscal 2012 to 23.00 percent in the current quarter, due primarily to lower margins on the fuel business. Excluding the impact of lower margin fuel sales, gross margin was 24.26 percent in the second quarter of fiscal 2013 compared to 24.11 percent in the same period last year.

Sobeys recorded gross profit for the first half of fiscal 2013 of \$2,037.0 million, an increase of \$93.8 million or 4.8 percent compared to \$1,943.2 million for the same period in the prior year. For the 26 weeks ended November 3, 2012, gross margin decreased 98 basis points to 23.08 percent compared to 24.06 percent last year. Excluding the impact of lower margin fuel sales, gross margin was 24.29 percent in the first half of fiscal 2013 compared to 24.25 percent in the same period last year.



## EBITDA

Sobeys contributed EBITDA to Empire for the second quarter of fiscal 2013 of \$212.0 million (4.88 percent of sales) compared to \$190.4 million (4.78 percent of sales) for the same period last year, an increase of \$21.6 million or 11.3 percent. Adjusting for 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 November 3, 2012 was \$202.0 million compared to \$193.2 million in the same quarter last year, an increase of \$8.8 million or 4.6 percent. Adjusted EBITDA as a percentage of sales decreased to 4.65 percent in the second quarter of fiscal 2013 from 4.85 percent in the same period last year primarily due to lower margins on the fuel business, as mentioned above.

For the 26 weeks ended November 3, 2012, Sobeys contributed EBITDA to Empire of \$453.2 million (5.12 percent of sales) compared to \$407.1 million (5.04 percent of sales) for the same period last year, an increase of \$46.1 million or 11.3 percent. Adjusting for items which are considered not indicative of underlying business operating performance, Sobeys' adjusted EBITDA contribution to Empire for the first half of fiscal 2013 was \$447.1 million (5.05 percent of sales) compared to \$406.2 million (5.02 percent of sales) last year, an increase of \$40.9 million or 10.1 percent.

| (\$ in millions)                                 | 13 Weeks Ended |              | 26 Weeks Ended |              |
|--|----------------|--------------|----------------|--------------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| EBITDA (contributed by Sobeys)                   | \$ 212.0       | \$ 190.4     | \$ 453.2       | \$ 407.1     |
| Adjustments:                                     |                |              |                |              |
| Sobeys' organizational realignment costs         | 0.9            | 4.1          | 3.8            | 4.1          |
| Sobeys Québec distribution network restructuring | (0.5)          | 0.7          | 2.6            | 1.1          |
| Gain on disposal of assets                       | (10.4)         | (1.7)        | (11.8)         | (5.7)        |
| Dilution gains                                   | -              | (0.3)        | (0.7)          | (0.4)        |
|  | (10.0)         | 2.8          | (6.1)          | (0.9)        |
| Adjusted EBITDA                                  | \$ 202.0       | \$ 193.2     | \$ 447.1       | \$ 406.2     |

## Operating Income

Sobeys' operating income contribution to Empire in the second quarter was \$127.7 million (2.94 percent of sales) compared to \$109.8 million (2.76 percent of sales) last year, an increase of \$17.9 million or 16.3 percent. 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 second quarter of \$117.7 million (2.71 percent of sales) compared to \$112.6 million (2.83 percent of sales) in the same quarter of the prior year, an increase of \$5.1 million or 4.5 percent.

Sobeys' operating income contribution to Empire for the 26 weeks ended November 3, 2012 was \$284.0 million (3.21 percent of sales) compared to \$245.2 million (3.03 percent of sales) last year, an increase of \$38.8 million or 15.8 percent. Adjusting for items which are considered not indicative of underlying business operating performance, Sobeys contributed adjusted operating income to Empire in the first half of fiscal 2013 of \$277.9 million (3.14 percent of sales) compared to \$244.3 million (3.02 percent of sales) last year, an increase of \$33.6 million or 13.8 percent.

| (\$ in millions)                                 | 13 Weeks Ended |              | 26 Weeks Ended |              |
|--|----------------|--------------|----------------|--------------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| Operating income (contributed by Sobeys)         | \$ 127.7       | \$ 109.8     | \$ 284.0       | \$ 245.2     |
| Adjustments:                                     |                |              |                |              |
| Sobeys' organizational realignment costs         | 0.9            | 4.1          | 3.8            | 4.1          |
| Sobeys Québec distribution network restructuring | (0.5)          | 0.7          | 2.6            | 1.1          |
| Gain on disposal of assets                       | (10.4)         | (1.7)        | (11.8)         | (5.7)        |
| Dilution gains                                   | -              | (0.3)        | (0.7)          | (0.4)        |
|  | (10.0)         | 2.8          | (6.1)          | (0.9)        |
| Adjusted operating income                        | \$ 117.7       | \$ 112.6     | \$ 277.9       | \$ 244.3     |

Sobeys continues to focus on disciplined cost management initiatives, supply chain and retail productivity improvements, the migration of best practices, and planned capital investments to drive sales and improve margins over time.

### Net Earnings

Sobeys contributed net earnings, net of minority interest, of \$85.0 million to Empire in the second quarter of fiscal 2013, an increase of \$16.6 million or 24.3 percent from the \$68.4 million recorded in the same quarter of the prior year. The increase in net earnings, net of minority interest, was primarily a result of higher operating income, as discussed, and lower finance costs, net of finance income, partially offset by higher income taxes.

Sobeys contributed net earnings, net of minority interest, of \$182.0 million to Empire for the first half of fiscal 2013, an increase of \$32.0 million or 21.3 percent over the \$150.0 million recorded in the same period last year.

### Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of minority interest, of \$77.4 million to Empire for the second quarter compared to \$70.1 million in the same quarter last year, an increase of \$7.3 million or 10.4 percent.

Sobeys contributed adjusted net earnings, net of minority interest, of \$177.0 million to Empire for the first half of fiscal 2013 compared to \$149.0 million last year, an increase of \$28.0 million or 18.8 percent.

The table below details the adjustments made to calculate Sobeys' contribution to adjusted net earnings, net of minority interest.

| (\$ in millions, net of tax)                                   | 13 Weeks Ended |              | 26 Weeks Ended |              |
|--|----------------|--------------|----------------|--------------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| Net earnings, net of minority interest (contributed by Sobeys) | \$ 85.0        | \$ 68.4      | \$ 182.0       | \$ 150.0     |
| Adjustments:   |                |              |                |              |
| Sobeys' organizational realignment costs                       | 0.7            | 2.9          | 2.8            | 2.9          |
| Sobeys Québec distribution network restructuring               | (0.4)          | 0.5          | 1.9            | 0.8          |
| Gain on disposal of assets                                     | (7.9)          | (1.5)        | (9.2)          | (4.4)        |
| Dilution gains   | -              | (0.2)        | (0.5)          | (0.3)        |
|  | (7.6)          | 1.7          | (5.0)          | (1.0)        |
| Adjusted net earnings, net of minority interest                | \$ 77.4        | \$ 70.1      | \$ 177.0       | \$ 149.0     |

## Investments and Other Operations

Empire's investments and other operations segment consists of its equity investments in real estate, wholly-owned Empire Theatres and Kepec. Empire Theatres is the second largest movie exhibitor in Canada which, as at November 3, 2012, owned 53 locations representing 438 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 43.0 percent 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.

At November 3, 2012, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

| (\$ in millions)                                   | November 3, 2012 |                 |                 | May 5, 2012     |                 |                 | November 5, 2011 |                 |                 |
|--|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|
|  | Market Value     | Carrying Value  | Unrealized Gain | Market Value    | Carrying Value  | Unrealized Gain | Market Value     | Carrying Value  | Unrealized Gain |
| Investment in Crombie REIT                         | \$ 570.5         | \$ 183.7        | \$ 386.8        | \$ 520.7        | \$ 167.4        | \$ 353.3        | \$ 443.7         | \$ 124.4        | \$ 319.3        |
| Investment in Genstar <sup>(1)</sup>               | 134.1            | 134.1           | -               | 138.8           | 138.8           | -               | 130.2            | 130.2           | -               |
| Canadian Digital Cinema Partnership <sup>(1)</sup> | 7.8              | 7.8             | -               | 7.2             | 7.2             | -               | 7.0              | 7.0             | -               |
| Other investments <sup>(1)(2)</sup>                | 31.4             | 31.4            | -               | 13.0            | 13.0            | -               | 13.6             | 13.6            | -               |
|  | <b>\$ 743.8</b>  | <b>\$ 357.0</b> | <b>\$ 386.8</b> | <b>\$ 679.7</b> | <b>\$ 326.4</b> | <b>\$ 353.3</b> | <b>\$ 594.5</b>  | <b>\$ 275.2</b> | <b>\$ 319.3</b> |

(1) Assumes market value equals carrying value.

(2) Includes investments in Crombie REIT convertible unsecured subordinated debentures with a market value of \$24.5 million (May 5, 2012 - \$12.8 million, November 5, 2011 - \$13.0 million). During the first quarter of fiscal 2013, the Company purchased \$24.0 million of Series D convertible unsecured subordinated debentures of Crombie REIT, which as at November 3, 2012, had a market value of \$24.5 million. On September 25, 2012, the Company converted Series B convertible unsecured subordinated debentures of Crombie REIT 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.

The table below presents sales, EBITDA, adjusted EBITDA, operating income, net earnings and adjusted net earnings for the investments and other operations segment.

| (\$ in millions)   | 13 Weeks Ended |              |        | (\$)     | 26 Weeks Ended |              |        | (\$) |
|--|----------------|--------------|--------|----------|----------------|--------------|--------|------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | Change |          | Nov. 3, 2012   | Nov. 5, 2011 | Change |      |
| Sales  | \$ 61.8        | \$ 55.3      | \$ 6.5 | \$ 112.4 | \$ 106.3       | \$ 6.1       |        |      |
| EBITDA   | 17.6           | 19.9         | (2.3)  | 40.6     | 37.4           | 3.2          |        |      |
| Adjusted EBITDA <sup>(1)</sup>                             | 17.6           | 12.9         | 4.7    | 29.2     | 28.4           | 0.8          |        |      |
| Operating income   |                |              |        |          |                |              |        |      |
| Crombie REIT <sup>(2)</sup>                                | 4.2            | 4.8          | (0.6)  | 9.7      | 9.6            | 0.1          |        |      |
| Real estate partnerships <sup>(3)</sup>                    | 4.6            | 2.9          | 1.7    | 9.2      | 10.4           | (1.2)        |        |      |
| Other operations, net of corporate expenses <sup>(4)</sup> | 4.4            | 8.3          | (3.9)  | 13.1     | 9.5            | 3.6          |        |      |
|  | 13.2           | 16.0         | (2.8)  | 32.0     | 29.5           | 2.5          |        |      |
| Net earnings   | 8.3            | 9.7          | (1.4)  | 20.2     | 17.3           | 2.9          |        |      |
| Adjusted net earnings <sup>(1)</sup>                       | 8.3            | 4.8          | 3.5    | 12.1     | 11.0           | 1.1          |        |      |

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

(2) 43.0 percent equity accounted interest in Crombie REIT (November 5, 2011 - 44.6 percent interest).

(3) 40.7 percent equity accounted interest in Genstar Development Partnership, 45.9 percent equity accounted interest in Genstar Development Partnership II, 42.1 percent equity accounted interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P. and GDC Investments 6, L.P., and a 45.8 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar").

(4) Other operations' (net of corporate expenses) operating income for the 13 and 26 weeks ended November 3, 2012 included dilution gains of \$nil and \$11.4 million, respectively (fiscal 2012 - \$7.0 million and \$9.6 million). During the second quarter of fiscal 2013, the Company converted its Series B convertible unsecured subordinated debentures of Crombie REIT for a pre-tax gain of \$3.8 million.

## Sales

Investments and other operations' sales equalled \$61.8 million in the second quarter ended November 3, 2012 versus \$55.3 million in the second quarter last year, a \$6.5 million or 11.8 percent increase. The increase in sales was primarily driven by an increase in sales at Empire Theatres and by the Company's other operations. Sales recorded in the first half of fiscal 2013 equalled \$112.4 million, an increase of \$6.1 million or 5.7 percent from the \$106.3 recorded in the same period of the prior year.

## EBITDA

Investments and other operations contributed EBITDA to Empire for the second quarter of fiscal 2013 of \$17.6 million compared to \$19.9 million in the same period last year, a decrease of \$2.3 million or 11.6 percent. Adjusting for items which are considered not indicative of underlying business operating performance, as presented in the table below, investments and other operations' adjusted EBITDA for the second quarter was \$17.6 million compared to \$12.9 million last year, an increase of \$4.7 million.

For the 26 weeks ended November 3, 2012, investments and other operations contributed EBITDA to Empire of \$40.6 million compared to \$37.4 million last year, an increase of \$3.2 million or 8.6 percent. Adjusting for items which are considered not indicative of underlying business operating performance, investments and other operations' adjusted EBITDA for the first half of fiscal 2013 was \$29.2 million compared to \$28.4 million last year, an increase of \$0.8 million. During the first half of fiscal 2013, the investments and other operations segment recorded dilution gains of \$11.4 million compared to \$9.6 million in the prior year resulting from a reduction in the Company's ownership interest in Crombie REIT.

| (\$ in millions)                          | 13 Weeks Ended |              | 26 Weeks Ended |              |
|---|----------------|--------------|----------------|--------------|
|   | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| EBITDA (investments and other operations) | \$ 17.6        | \$ 19.9      | \$ 40.6        | \$ 37.4      |
| Adjustments:                              |                |              |                |              |
| Dilution gains                            | -              | (7.0)        | (11.4)         | (9.6)        |
| Loss on disposal of assets                | -              | -            | -              | 0.6          |
|   | -              | (7.0)        | (11.4)         | (9.0)        |
| Adjusted EBITDA                           | \$ 17.6        | \$ 12.9      | \$ 29.2        | \$ 28.4      |

## Operating Income

Investments and other operations contributed operating income of \$13.2 million in the 13 weeks ended November 3, 2012 compared to \$16.0 million last year, a decrease of \$2.8 million or 17.5 percent. The contributors to operating income in the second quarter of fiscal 2013 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT equalled \$4.2 million in the 13 weeks ended November 3, 2012, down \$0.6 million from the \$4.8 million recorded in the 13 weeks ended November 5, 2011. This decrease was driven primarily by a one-time finance charge reported by Crombie REIT, partially offset 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) amounted to \$4.6 million in the second quarter of fiscal 2013, up \$1.7 million from the \$2.9 million recorded in the same period last year, primarily as a result of stronger lot sales during the quarter.
- Operating income from other operations, net of corporate expenses, decreased \$3.9 million in the second quarter of fiscal 2013 to \$4.4 million from \$8.3 million last year. The decrease in operating income from other operations, net of corporate expenses, was primarily due to dilution gains of \$7.0 million recorded in the second quarter of fiscal 2012 resulting from a reduction in the Company's ownership interest in Crombie REIT, partially offset by a pre-tax gain on the Company's conversion of Series B convertible unsecured subordinated debentures of Crombie REIT of \$3.8 million in the 13 weeks ended November 3, 2012.

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 of \$13.2 million versus \$9.0 million in the second quarter of fiscal 2012, an increase of \$4.2 million.

Investments and other operations contributed operating income of \$32.0 million in the first half of fiscal 2013 versus \$29.5 million in the same period last year, an increase of \$2.5 million or 8.5 percent. The contributors to operating income in the first half of fiscal 2013 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT was \$9.7 million in the 26 weeks ended November 3, 2012, up \$0.1 million from the prior year.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) decreased \$1.2 million to \$9.2 million in the first half of fiscal 2013 compared to \$10.4 million in the prior year.
- Other operations, net of corporate expenses, contributed operating income of \$13.1 million, up \$3.6 million from the \$9.5 million recorded in the first half of fiscal 2012. The increase is partially the result of the pre-tax gain from the Company's conversion of Series B convertible unsecured subordinated debentures of Crombie REIT of \$3.8 million, as discussed.

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 26 weeks ended November 3, 2012 of \$20.6 million compared to \$20.5 million in the same period last year, an increase of \$0.1 million.

### Net Earnings

Investments and other operations contributed \$8.3 million to Empire's consolidated second quarter fiscal 2013 net earnings compared to a contribution of \$9.7 million in the second quarter of fiscal 2012. The \$1.4 million decrease is primarily attributed to lower operating income, as discussed, and higher finance costs, net of finance income, partially offset by lower income taxes.

During the 26 weeks ended November 3, 2012, investments and other operations contributed \$20.2 million to Empire's consolidated net earnings compared to a contribution of \$17.3 million in the 26 weeks ended November 5, 2011. The \$2.9 million increase is primarily attributed to higher operating income, as discussed, accompanied by lower finance costs, net of finance income, and lower income taxes.

### Adjusted Net Earnings

Investments and other operations contributed adjusted net earnings of \$8.3 million for the second quarter compared to \$4.8 million last year, an increase of \$3.5 million. Included in net earnings in the second quarter last year were dilution gains of \$4.9 million.

For the 26 weeks ended November 3, 2012, investments and other operations contributed adjusted net earnings of \$12.1 million compared to \$11.0 million in the same period last year, an increase of \$1.1 million.

The following table adjusts reported net earnings for these and other items which are considered not indicative of underlying business operating performance.

| (\$ in millions)                                | 13 Weeks Ended |              | 26 Weeks Ended |              |
|---|----------------|--------------|----------------|--------------|
|   | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| Net earnings (investments and other operations) | \$ 8.3         | \$ 9.7       | \$ 20.2        | \$ 17.3      |
| Adjustments:                                    |                |              |                |              |
| Dilution gains                                  | -              | (4.9)        | (8.1)          | (6.7)        |
| Loss on disposal of assets                      | -              | -            | -              | 0.4          |
|   | -              | (4.9)        | (8.1)          | (6.3)        |
| Adjusted net earnings                           | \$ 8.3         | \$ 4.8       | \$ 12.1        | \$ 11.0      |

## 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) | Nov. 3, 2012 | May 5, 2012 | Nov. 5, 2011 |
|---|--------------|-------------|--------------|
| Shareholders' equity, net of minority interest            | \$ 3,554.1   | \$ 3,396.3  | \$ 3,267.3   |
| Book value per common share                               | \$ 52.31     | \$ 49.98    | \$ 48.02     |
| Bank indebtedness   | \$ 34.3      | \$ 4.4      | \$ 6.0       |
| Long-term debt, including current portion                 | \$ 939.8     | \$ 1,126.4  | \$ 1,098.4   |
| Funded debt to total capital                              | 21.5%        | 25.0%       | 25.3%        |
| Net funded debt to net total capital ratio                | 14.1%        | 15.4%       | 15.6%        |
| Funded debt to EBITDA <sup>(1)</sup>                      | 1.1x         | 1.3x        | 1.3x         |
| EBITDA to interest expense <sup>(2)</sup>                 | 16.6x        | 14.4x       | 13.1x        |
| Current assets to current liabilities                     | 1.0x         | 0.9x        | 1.0x         |
| Total assets  | \$ 6,897.1   | \$ 6,913.1  | \$ 6,580.2   |

(1) Calculation uses trailing four-quarter EBITDA.

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

### Shareholders' Equity

Book value per common share was \$52.31 at the end of the second quarter compared to \$51.19 at the end of the prior quarter. The increase in book value largely reflects the Company's earnings growth, as discussed.

The Company's share capital on November 3, 2012 consisted of:

|   | Authorized<br>Number of Shares | Issued and Outstanding<br>Number of Shares | \$ 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 November 3, 2012 for a total of 67,948,510 shares outstanding. This is unchanged from last quarter, the previous fiscal year-end and the second quarter last year.

Empire had 684,128 options outstanding at November 3, 2012 compared to 638,818 options outstanding at November 5, 2011.

As at December 13, 2012, 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 684,128 options to acquire in aggregate 684,128 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$16.3 million in the second quarter of fiscal 2013 (\$0.240 per share) versus \$15.3 million (\$0.225 per share) in the second quarter of fiscal 2012.

### 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 November 3, 2012 was \$939.8 million, representing 96.5 percent of Empire's total funded debt of \$974.1 million.

The composition of funded debt by segment is as follows:

| (\$ in millions)                           | Nov. 3, 2012    | May 5, 2012       | Nov. 5, 2011      |
|--|-----------------|-------------------|-------------------|
| Bank indebtedness                          |                 |                   |                   |
| Investments and other operations           | \$ 34.3         | \$ 4.4            | \$ 6.0            |
| Long-term debt (including current portion) |                 |                   |                   |
| Food retailing                             | 766.4           | 975.6             | 974.2             |
| Investments and other operations           | 173.4           | 150.8             | 124.2             |
| <b>Total funded debt</b>                   | <b>\$ 974.1</b> | <b>\$ 1,130.8</b> | <b>\$ 1,104.4</b> |

Consolidated funded debt has decreased \$156.7 million from the \$1,130.8 million reported at the start of the fiscal year, and is down \$130.3 million from the \$1,104.4 million reported at the end of the second quarter last year. The decrease in consolidated funded debt from the prior year was primarily due to a \$207.8 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of \$77.5 million. During the first quarter of fiscal 2013, Sobeys repaid its \$200.0 million non-revolving term credit facility, as detailed below.

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. The revolving term credit facility matures on February 14, 2016, 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, Canadian prime rate or London InterBank Offered Rate ("LIBOR"). As at November 3, 2012, Sobeys had issued \$80.6 million (May 5, 2012 - \$52.7 million) in letters of credit against the revolving term credit facility.

The ratio of funded debt to total capital has improved 3.8 percentage points to 21.5 percent from 25.3 percent since the second quarter last year. This improvement is mainly a result of lower consolidated funded debt levels due largely to the repayment of Sobeys' non-revolving term credit facility of \$200.0 million, as mentioned, and higher shareholders' equity levels due to growth in retained earnings.

Empire's funded debt to EBITDA ratio improved from 1.3 times at November 5, 2011 to 1.1 times at November 3, 2012 due to lower consolidated funded debt levels of 11.8 percent and an increase in trailing four-quarter EBITDA of 5.2 percent.

Empire's EBITDA to interest expense ratio improved from 13.1 times recorded at November 5, 2011 to 16.6 times at November 3, 2012. The improvement over fiscal 2012 is primarily due to a decline in trailing four-quarter interest expense of 16.7 percent accompanied by an increase in trailing four-quarter EBITDA of 5.2 percent, as discussed.

Sobeys current credit ratings are BBB with a stable trend from Dominion Bond Rating Service and BBB- with a stable trend from Standard and Poors.

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 5, 2012.

### 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 and 26 weeks ended November 3, 2012 or for the comparative periods in fiscal 2012.

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.

#### In-Place Financial Instruments

The Company utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. In July 2007, Sobeys entered into an interest rate swap for \$200.0 million to fix the interest rate on a portion of its floating rate debt. This credit facility matured and was repaid in July 2012 with the interest rate swap being settled concurrently. On a consolidated basis, there were no further interest rate instruments outstanding at November 3, 2012.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of \$1.015 Canadian Dollar ("CAD")/United States Dollar ("USD") to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of November 3, 2012, Sobeys recognized a liability of \$0.3 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus/(minus) \$0.7 million and would impact other comprehensive income by plus/(minus) \$0.5 million.

To mitigate the currency risk associated with some of the Company's Euro purchases, Sobeys entered into forward currency contracts with staggered maturities to act as a hedge against the effect of changes in the value of the CAD relative to the Euro. As at November 3, 2012, Sobeys had recognized a liability of \$0.4 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable exchange rates would impact the fair value by plus/(minus) \$0.5 million and other comprehensive income by plus/(minus) \$0.3 million.

#### 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 November 3, 2012 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. 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 26 to the Company's annual audited financial statements for the 52 weeks ended May 5, 2012.

## **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 November 3, 2012, consolidated cash and cash equivalents was \$389.9 million versus \$510.2 million at May 5, 2012 and \$500.3 million at November 5, 2011.



At the end of the second quarter of fiscal 2013, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450.0 million, of which \$167.6 million or 37.2 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by \$669.3 million at November 3, 2012.

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.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 and 26 weeks ended November 3, 2012 and for the fiscal year ended May 5, 2012.

The following table highlights major cash flow components for the 13 and 26 weeks ended November 3, 2012 compared to the 13 and 26 weeks ended November 5, 2011.

| (\$ in millions)                                 | 13 Weeks Ended |              | 26 Weeks Ended |              |
|--|----------------|--------------|----------------|--------------|
|  | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| Net earnings                                     | \$ 95.1        | \$ 80.7      | \$ 211.4       | \$ 177.3     |
| Non-cash and other cash items                    | 130.3          | 117.7        | 278.0          | 261.4        |
| Net change in non-cash working capital           | (63.4)         | (96.1)       | (77.3)         | (76.5)       |
| Income taxes paid, net                           | (22.6)         | (31.1)       | (72.3)         | (93.7)       |
| Cash flows from operating activities             | 139.4          | 71.2         | 339.8          | 268.5        |
| Cash flows used in investing activities          | (106.3)        | (173.3)      | (239.1)        | (269.4)      |
| Cash flows used in financing activities          | (12.1)         | (35.3)       | (221.0)        | (114.7)      |
| Increase (decrease) in cash and cash equivalents | \$ 21.0        | \$ (137.4)   | \$ (120.3)     | \$ (115.6)   |

## Operations

The second quarter of fiscal 2013 generated cash flows from operating activities of \$139.4 million compared to \$71.2 million in the comparable period last year. The \$68.2 million increase is attributed to a \$32.7 million decline in the net change in non-cash working capital, an increase in net earnings of \$14.4 million, an increase in non-cash and other cash items of \$12.6 million and a decrease in income taxes paid, net, of \$8.5 million.

The first half of fiscal 2013 generated cash flows from operating activities of \$339.8 million compared to \$268.5 million in the comparable period last year. The \$71.3 million increase is attributed to an increase in net earnings of \$34.1 million, a decrease in income taxes paid, net, of \$21.4 million, and an increase in non-cash and other cash items of \$16.6 million, partially offset by a \$0.8 million increase in the net change in non-cash working capital.

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

| Non-Cash Working Capital (Quarter-Over-Quarter) |              |              | 13 Weeks Ended  | 13 Weeks Ended  |
|---|--------------|--------------|---|---|
|   | Nov. 3, 2012 | Aug. 4, 2012 | Nov. 3, 2012<br>Increase<br>(Decrease) in<br>Cash Flows | Nov. 5, 2011<br>Increase<br>(Decrease) in<br>Cash Flows |
| (\$ in millions)                                | Nov. 3, 2012 | Aug. 4, 2012 |   |   |
| Receivables                                     | \$ 345.2     | \$ 337.7     | \$ (7.5)  | \$ (13.8)   |
| Inventories                                     | 888.0        | 845.3        | (42.7)  | (38.9)  |
| Prepaid expenses                                | 85.1         | 95.6         | 10.5  | 1.1   |
| Accounts payable and accrued liabilities        | (1,694.7)    | (1,735.8)    | (41.1)  | (55.4)  |
| Provisions                                      | (37.9)       | (27.4)       | 10.5  | 0.7   |
| Impact of reclassifications on working capital  | (6.9)        | -            | 6.9   | 10.2  |
| Total   | \$ (421.2)   | \$ (484.6)   | \$ (63.4)   | \$ (96.1)   |

The decrease in non-cash working capital of \$63.4 million in the second quarter was largely due to an increase in inventories of \$42.7 million, a decrease in accounts payable and accrued liabilities of \$41.1 million, and an increase in receivables of \$7.5 million, partially offset by a decrease in prepaid expenses of \$10.5 million and an increase in provisions of \$10.5 million.

The Company's ratio of current assets to current liabilities of 1.0 times remained consistent to the same period last year, despite fluctuations in working capital balances.

## Investment

Cash used in investing activities of \$106.3 million in the second quarter decreased \$67.0 million compared to cash used in investing activities of \$173.3 million last year. The decrease was primarily the result of: (i) a decrease in property, equipment and investment property purchases of \$35.0 million; (ii) an increase in proceeds on disposal of property, equipment and investment property of \$33.2 million; (iii) a decrease in cash used to fund a net increase in investments of \$15.6 million; and (iv) a decrease in cash used to fund business acquisitions of \$2.4 million. Partially offsetting these sources of cash were: (i) a decrease in cash generated from loans and other receivables of \$13.8 million; and (ii) an increase in additions to intangibles of \$4.8 million.

For the 26 weeks ended November 3, 2012, cash used in investing activities was \$239.1 million, a decrease of \$30.3 million from cash used in investing activities of \$269.4 million last year. The decrease was primarily the result of: (i) an increase in cash generated from other assets and other long-term liabilities of \$29.3 million; (ii) a decrease in property, equipment and investment property purchases of \$19.1 million; (iii) a decrease in cash used to fund business acquisitions of \$8.1 million; and (iv) an increase in cash generated from loans and other receivables of \$4.8 million. Partially offsetting these sources of cash were: (i) an increase in cash used to fund a net increase in investments of \$11.2 million; (ii) a decrease in proceeds on disposal of property, equipment and investment property of \$9.9 million; and (iii) an increase in additions to intangibles of \$8.5 million.

Consolidated purchases of property, equipment and investment properties totalled \$129.2 million in the second quarter of fiscal 2013 compared to \$164.2 million in the second quarter last year. Proceeds on the disposal of property, equipment and investment properties increased \$33.2 million from the prior year to \$62.5 million in the 13 weeks ended November 3, 2012 from \$29.3 million in the second quarter last year. Three properties were sold to Crombie REIT during the 13 weeks ended November 3, 2012 (13 weeks ended November 5, 2011 - three properties) for cash consideration of \$50.2 million (13 weeks ended November 5, 2011 - \$24.6 million).

For the 26 weeks ended November 3, 2012, consolidated purchases of property, equipment and investment properties totalled \$253.8 million compared to \$272.9 million last year. Proceeds on the disposal of property, equipment and investment properties decreased \$9.9 million from the prior year-to-date to \$72.5 million in the 26 weeks ended November 3, 2012 from \$82.4 million in the first half of last year. During the first half of fiscal 2013, the Company sold three (26 weeks ended November 5, 2011 - six) properties to Crombie REIT for cash consideration of \$50.2 million (26 weeks ended November 5, 2011 - \$56.6 million).

The table below outlines the number of stores Sobeys invested in during the 13 and 26 weeks ended November 3, 2012 compared to the 13 and 26 weeks ended November 5, 2011.

### **Sobeys' Corporate and Franchised Store Construction Activity**

| # of stores               | 13 Weeks Ended |              | 26 Weeks Ended |              |
|---------------------------|----------------|--------------|----------------|--------------|
|                           | Nov. 3, 2012   | Nov. 5, 2011 | Nov. 3, 2012   | Nov. 5, 2011 |
| Opened/acquired/relocated | 12             | 15           | 22             | 23           |
| Expanded                  | 1              | 1            | 1              | 4            |
| Rebanned/redeveloped      | 2              | 7            | 4              | 10           |
| Closed                    | 6              | 13           | 19             | 25           |

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended November 3, 2012, by type.

### **Sobeys' Square Footage Changes**

| Square feet (in thousands) | 13 Weeks Ended | 52 Weeks Ended |
|----------------------------|----------------|----------------|
|                            | Nov. 3, 2012   | Nov. 3, 2012   |
| Opened                     | 237            | 820            |
| Relocated                  | -              | 17             |
| Acquired                   | -              | 242            |
| Expanded                   | 17             | 101            |
| Closed                     | (79)           | (567)          |
| Net change                 | 175            | 613            |

At November 3, 2012, Sobeys' square footage totalled 29.5 million square feet, a 2.1 percent increase over the 28.9 million square feet operated at the end of the second quarter last year.

### **Financing**

Financing activities during the second quarter used \$12.1 million of cash compared to \$35.3 million of cash used in the same quarter last year. The decrease in cash used of \$23.2 million is primarily the result of: (i) an increase in bank indebtedness of \$28.3 million; (ii) a decrease in the repayment of long-term debt of \$4.9 million; and (iii) a decrease in interest paid of \$4.5 million. Partially offsetting these sources of cash was a decrease in the issuance of long-term debt of \$13.5 million.

During the 26 weeks ended November 3, 2012, financing activities used \$221.0 million of cash compared to \$114.7 million of cash used in the same period last year. The increase in cash used of \$106.3 million is primarily the result of an increase in the repayment of long-term debt of \$146.5 million. Partially offsetting this use of cash was: (i) an increase in bank indebtedness of \$23.9 million; and (ii) an increase in the issuance of long-term debt of \$14.6 million.

## Business Acquisitions

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada for \$214.9 million. The network acquired includes corporate owned and dealer operated locations and is expected to have annual fuel volumes in excess of one billion litres. The acquisition of these retail gas locations complements Sobeys' convenience store operations.

The total consideration of \$214.9 million was paid in cash. Acquisition costs of \$3.9 million relating to external legal, consulting, due diligence and other closing costs were incurred and have been included in selling and administrative expenses in the consolidated statements of earnings for the 13 and 52 weeks ended May 5, 2012.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

| (\$ in millions)   |                 |
|--|-----------------|
| Inventories  | \$ 8.0          |
| Property and equipment   | 136.3           |
| Intangibles  | 22.3            |
| Provisions   | (22.6)          |
| Other assets and liabilities   | 5.2             |
| <b>Total identifiable net assets</b>                                   | <b>\$ 149.2</b> |
| <b>Excess consideration paid over identifiable net assets acquired</b> | <b>\$ 65.7</b>  |

During the second quarter of fiscal 2013, management finalized the purchase price allocation related to this acquisition. As a result, the consolidated balance sheet as at November 3, 2012 was adjusted by an increase to land of \$1.7 million, a decrease to equipment of \$3.4 million, and goodwill increased \$1.7 million.

## 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 and 26 weeks ended November 3, 2012 and the 13 and 26 weeks ended November 5, 2011.

| (\$ in millions)   | 13 Weeks Ended |                  | 26 Weeks Ended  |                |
|--|----------------|------------------|-----------------|----------------|
|  | Nov. 3, 2012   | Nov. 5, 2011     | Nov. 3, 2012    | Nov. 5, 2011   |
| Cash flow from operating activities                                      | \$ 139.4       | \$ 71.2          | \$ 339.8        | \$ 268.5       |
| Add: proceeds on disposal of property, equipment and investment property | 62.5           | 29.3             | 72.5            | 82.4           |
| Less: property, equipment and investment property purchases              | (129.2)        | (164.2)          | (253.8)         | (272.9)        |
| <b>Free cash flow</b>  | <b>\$ 72.7</b> | <b>\$ (63.7)</b> | <b>\$ 158.5</b> | <b>\$ 78.0</b> |

Free cash flow generation in the second quarter of fiscal 2013 was \$72.7 million compared to cash used of \$63.7 million in the second quarter last year. The \$136.4 million increase in free cash flow was due to a \$68.2 million increase in cash flow from operating activities, accompanied by a decline in property, equipment and investment property purchases of \$35.0 million and an increase in proceeds on disposal of property, equipment and investment property of \$33.2 million. The \$68.2 million increase in cash flow from operating activities is attributed to a \$32.7 million decline in the net change in non-cash working capital, an increase in net earnings of \$14.4 million, an increase in non-cash and other cash items of \$12.6 million and a decrease in income taxes paid, net, of \$8.5 million.

For the first half of fiscal 2013, free cash flow generation was \$158.5 million compared to \$78.0 million last year. The \$80.5 million increase in free cash flow from the first half of the prior fiscal year was due to a \$71.3 million increase in cash flow from operating activities accompanied by a \$19.1 million decrease in property, equipment and investment property purchases, partially offset by a decline in proceeds on disposal of property, equipment and investment property of \$9.9 million. The \$71.3 million increase in cash flow from operating activities was the result of an increase in net earnings of \$34.1 million, a decrease in income taxes paid, net, of \$21.4 million, and an increase in non-cash and other cash items of \$16.6 million, partially offset by a \$0.8 million increase in the net change in non-cash working capital.

## **ACCOUNTING STANDARDS AND POLICIES**

### **Accounting Standards and Policies Adopted During Fiscal 2013**

With the exception of the following amendments, the unaudited, interim 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 5, 2012.

(i) Financial Instruments: Disclosures

In October 2010, the IASB issued amendments to International Financial Reporting Standards ("IFRS") 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments became effective in the Company's first quarter of fiscal 2013. No new disclosures were required for the interim consolidated financial statements as a result of implementing these amendments.

(ii) Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments became effective in the Company's first quarter of fiscal 2013. These amendments did not impact the Company as its investment properties are not measured at fair value.

### **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 second 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) 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, and is effective for annual periods beginning on or after January 1, 2013.

(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, this 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 and is effective for annual periods beginning on or after January 1, 2013.

(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. It is effective for annual periods beginning on or after January 1, 2013.

(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 is effective for annual periods beginning on or after January 1, 2013.

(vi) 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 amendments are effective for annual periods beginning on or after January 1, 2013.

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 2012 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 August 5, 2012 and ended November 3, 2012 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. The Company holds a 43.0 percent ownership interest in Crombie REIT which is accounted for using the equity method.

The Company rents premises from Crombie REIT at amounts which, in management's opinion, approximate fair market value. Due to 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 and 26 weeks ended November 3, 2012, the aggregate net payments under these leases, which are measured at exchange amount, were \$20.4 million and \$47.0 million, respectively (13 and 26 weeks ended November 5, 2011 - \$19.3 million and \$42.2 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 and 26 weeks ended November 3, 2012, charges incurred for administrative and management services were \$0.2 million and \$0.6 million, respectively (13 and 26 weeks ended November 5, 2011 - \$0.3 million and \$0.9 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$2.7 million (November 5, 2011 - \$3.8 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.

During the 26 weeks ended November 3, 2012, the Company sold three (November 5, 2011 - six) properties to Crombie REIT, three (November 5, 2011 - five) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of \$50.2 million (November 5, 2011 - \$56.6 million), resulting in a pre-tax gain of \$5.6 million (November 5, 2011 - \$4.3 million), which was recognized in the consolidated statements of earnings. During the quarter ended November 5, 2011, the Company acquired a property from Crombie REIT for \$5.0 million which management believes is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional \$2.0 million was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of \$7.0 million. No properties were acquired during the quarter ended November 3, 2012.

The Company owns convertible unsecured subordinated debentures from Crombie REIT with a market value of \$24.5 million (November 5, 2011 - \$13.0 million). During the 13 and 26 weeks ended November 3, 2012, the Company received income related to these securities of \$0.3 million and \$0.6 million, respectively (13 and 26 weeks ended November 5, 2011 - \$0.2 million and \$0.3 million).

On October 20, 2011 Crombie REIT closed a bought-deal public offering of units at a price of \$12.85 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

During the quarter ended November 5, 2011, fixed rate secured mortgages provided to Crombie REIT in the amount of \$5.6 million were repaid in their entirety.

On July 3, 2012, the Company purchased \$24.0 million of Series D convertible unsecured subordinated debentures ("the 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.

On September 25, 2012, the Company converted Series B convertible unsecured subordinated debentures of Crombie REIT 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.

As a result of the conversion of Crombie REIT debentures during the second quarter of fiscal 2013, the Company's interest in Crombie REIT increased from 42.5 percent to 43.0 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.

During the quarter ended November 3, 2012, the Company acquired a parcel of land from Genstar Development Partnership, in which the Company holds a 40.7 percent interest. Cash consideration paid for the land was \$7.6 million. The gain realized of \$1.6 million was eliminated from property and equipment.

## **SUBSEQUENT EVENTS**

On November 7, 2012, the Company sold its petroleum and natural gas properties for \$17.1 million before costs. Purchase price approximates the carrying value of these assets, therefore minimal gain or loss is anticipated related to this transaction. The assets have been included in assets held for sale.

On November 26, 2012, Crombie REIT announced a bought-deal public offering of units at a price of \$14.75 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company will subscribe for approximately \$24.5 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 43.0 percent to 42.9 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 2012 annual MD&A.

## **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 the 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 and 26 weeks ended November 3, 2012, the Company contributed \$2.6 million and \$5.1 million, respectively, to its registered defined benefit plans (13 and 26 weeks ended November 5, 2011 - \$1.5 million and \$3.0 million). The Company expects to contribute approximately \$10.4 million in fiscal 2013 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: December 13, 2012  
Stellarton, Nova Scotia, Canada

**Empire Company Limited**  
**Consolidated Balance Sheets**

| <b>As At</b>                                       | <b>November 3</b> | <b>May 5</b>      | <b>November 5</b> |
|--|-------------------|-------------------|-------------------|
| <b>Unaudited (in millions of Canadian dollars)</b> | <b>2012</b>       | <b>2012</b>       | <b>2011</b>       |
| <b>ASSETS</b>                                      |                   |                   |                   |
| Current  |                   |                   |                   |
| Cash and cash equivalents                          | \$ 389.9          | \$ 510.2          | \$ 500.3          |
| Receivables  | 345.2             | 362.0             | 350.5             |
| Inventories (Note 4)                               | 888.0             | 825.3             | 874.5             |
| Prepaid expenses                                   | 85.1              | 77.6              | 76.6              |
| Loans and other receivables                        | 34.3              | 41.0              | 45.9              |
| Income taxes receivable                            | 42.0              | 46.8              | 37.8              |
| Assets held for sale                               | 50.7              | 28.2              | 77.2              |
|  | <u>1,835.2</u>    | 1,891.1           | 1,962.8           |
| Loans and other receivables                        | 56.2              | 60.6              | 71.9              |
| Investments  | 31.4              | 13.0              | 13.6              |
| Investments, at equity (Note 5)                    | 325.6             | 313.4             | 261.6             |
| Other assets                                       | 45.5              | 68.5              | 61.1              |
| Property and equipment                             | 2,699.8           | 2,679.2           | 2,422.2           |
| Investment property                                | 86.2              | 86.9              | 76.3              |
| Intangibles  | 465.0             | 461.8             | 445.7             |
| Goodwill   | 1,307.7           | 1,302.1           | 1,233.3           |
| Deferred tax assets                                | 44.5              | 36.5              | 31.7              |
|  | <u>\$ 6,897.1</u> | <u>\$ 6,913.1</u> | <u>\$ 6,580.2</u> |
| <b>LIABILITIES</b>                                 |                   |                   |                   |
| Current  |                   |                   |                   |
| Bank indebtedness                                  | \$ 34.3           | \$ 4.4            | \$ 6.0            |
| Accounts payable and accrued liabilities           | 1,694.7           | 1,729.8           | 1,612.5           |
| Income taxes payable                               | 31.8              | 16.7              | 15.2              |
| Provisions (Note 6)                                | 37.9              | 30.1              | 27.5              |
| Long-term debt due within one year (Note 7)        | 46.5              | 237.3             | 238.2             |
|  | <u>1,845.2</u>    | 2,018.3           | 1,899.4           |
| Provisions (Note 6)                                | 52.7              | 59.7              | 37.0              |
| Long-term debt (Note 7)                            | 893.3             | 889.1             | 860.2             |
| Other long-term liabilities                        | 184.8             | 178.5             | 175.2             |
| Employee future benefits obligation (Note 15)      | 150.8             | 143.3             | 134.1             |
| Derivative financial liabilities                   | 0.7               | 2.8               | 6.2               |
| Deferred tax liabilities                           | 181.4             | 190.0             | 164.3             |
|  | <u>3,308.9</u>    | 3,481.7           | 3,276.4           |
| <b>SHAREHOLDERS' EQUITY</b>                        |                   |                   |                   |
| Capital stock                                      | 319.3             | 319.3             | 323.4             |
| Contributed surplus                                | 6.4               | 6.1               | 5.2               |
| Retained earnings                                  | 3,239.3           | 3,081.7           | 2,950.0           |
| Accumulated other comprehensive loss               | (10.9)            | (10.8)            | (11.3)            |
|  | <u>3,554.1</u>    | 3,396.3           | 3,267.3           |
| Minority interest                                  | 34.1              | 35.1              | 36.5              |
|  | <u>3,588.2</u>    | 3,431.4           | 3,303.8           |
|  | <u>\$ 6,897.1</u> | <u>\$ 6,913.1</u> | <u>\$ 6,580.2</u> |

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

On Behalf of the Board

(signed) "Rob Dexter"  
 Director

(signed) "Paul Sobey"  
 Director

| <b>Empire Company Limited</b><br><b>Consolidated Statements of Earnings</b><br><b>Unaudited (in millions of Canadian dollars, except per</b><br><b>share amounts)</b> | <i>13 Weeks Ended</i>            |                                  | <i>26 Weeks Ended</i>            |                                  |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|   | <b>November 3</b><br><b>2012</b> | <b>November 5</b><br><b>2011</b> | <b>November 3</b><br><b>2012</b> | <b>November 5</b><br><b>2011</b> |
| Sales   | \$ 4,404.1                       | \$ 4,036.3                       | \$ 8,961.8                       | \$ 8,190.5                       |
| Other income (Note 8)   | 14.5                             | 9.5                              | 28.3                             | 15.9                             |
| Share of earnings from investments, at equity   | 9.0                              | 7.7                              | 19.3                             | 19.4                             |
| Operating expenses  |                                  |                                  |                                  |                                  |
| Cost of sales   | 3,358.4                          | 3,044.1                          | 6,833.1                          | 6,171.6                          |
| Selling and administrative expenses   | 928.3                            | 883.6                            | 1,860.3                          | 1,779.5                          |
| Operating income  | 140.9                            | 125.8                            | 316.0                            | 274.7                            |
| Finance costs, net (Note 9)   | 12.1                             | 15.0                             | 27.0                             | 31.6                             |
| Earnings before income taxes  | 128.8                            | 110.8                            | 289.0                            | 243.1                            |
| Income taxes  | 33.7                             | 30.1                             | 77.6                             | 65.8                             |
| Net earnings  | \$ 95.1                          | \$ 80.7                          | \$ 211.4                         | \$ 177.3                         |
| Earnings for the period attributable to:  |                                  |                                  |                                  |                                  |
| Minority interest   | \$ 1.8                           | \$ 2.6                           | \$ 9.2                           | \$ 10.0                          |
| Owners of the parent  | 93.3                             | 78.1                             | 202.2                            | 167.3                            |
|   | \$ 95.1                          | \$ 80.7                          | \$ 211.4                         | \$ 177.3                         |
| Earnings per share (Note 10)  |                                  |                                  |                                  |                                  |
| Basic   | \$ 1.37                          | \$ 1.15                          | \$ 2.97                          | \$ 2.46                          |
| Diluted   | \$ 1.37                          | \$ 1.15                          | \$ 2.97                          | \$ 2.46                          |
| Weighted average number of common shares outstanding, in millions (Note 10)   |                                  |                                  |                                  |                                  |
| Basic   | 67.9                             | 67.9                             | 67.9                             | 67.9                             |
| Diluted   | 68.1                             | 68.0                             | 68.1                             | 68.0                             |

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

| <b>Empire Company Limited</b><br><b>Consolidated Statements of Comprehensive Income</b><br><b>Unaudited (in millions of Canadian dollars)</b>   | <i>13 Weeks Ended</i>      |                            | <i>26 Weeks Ended</i>      |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   | <b>November 3<br/>2012</b> | <b>November 5<br/>2011</b> | <b>November 3<br/>2012</b> | <b>November 5<br/>2011</b> |
| Net earnings  | \$ 95.1                    | \$ 80.7                    | \$ 211.4                   | \$ 177.3                   |
| Other comprehensive income  |                            |                            |                            |                            |
| Unrealized gains (losses) on derivatives designated as cash flow hedges (net of income taxes of \$(0.1) and \$(0.1) for the 13 and 26 weeks to date (November 5, 2011 - \$(0.1) and \$0.1))                         | 0.3                        | 0.3                        | 0.1                        | (0.1)                      |
| Reclassification of losses on derivative instruments designated as cash flow hedges to earnings (net of income taxes of \$nil and \$(0.5) for the 13 and 26 weeks to date (November 5, 2011 - \$(0.5) and \$(1.1))) | -                          | 1.1                        | 1.1                        | 2.4                        |
| Unrealized (losses) gains on available for sale financial assets (net of income taxes of \$nil and \$(0.2) for the 13 and 26 weeks to date (November 5, 2011 - \$(0.3) and \$(0.2)))                                | (0.1)                      | 1.1                        | 1.2                        | 0.8                        |
| Reclassification of (gains) losses on available for sale financial assets to earnings (net of income taxes of \$0.6 and \$0.6 for the 13 and 26 weeks to date (November 5, 2011 - \$nil and \$nil))                 | (3.0)                      | 0.1                        | (3.0)                      | 0.1                        |
| Actuarial gains (losses) on defined benefit plans (net of income taxes of \$(0.8) and \$4.1 for the 13 and 26 weeks to date (November 5, 2011 - \$6.2 and \$13.4))  | 2.3                        | (18.0)                     | (12.0)                     | (38.8)                     |
| Share of other comprehensive income of investments, at equity (net of income taxes of \$(0.2) and \$(0.4) for the 13 and 26 weeks to date (November 5, 2011 - \$(0.2) and \$(0.3)))                                 | 0.6                        | 0.4                        | 0.9                        | 0.7                        |
| Exchange differences on translation of foreign operations   | (1.2)                      | 3.0                        | (0.4)                      | 2.9                        |
| <b>Total comprehensive income</b>   | <b>\$ 94.0</b>             | <b>\$ 68.7</b>             | <b>\$ 199.3</b>            | <b>\$ 145.3</b>            |
| Total comprehensive income for the period attributable to:  |                            |                            |                            |                            |
| Minority interest   | \$ 1.8                     | \$ 2.6                     | \$ 9.2                     | \$ 10.0                    |
| Owners of the parent  | 92.2                       | 66.1                       | 190.1                      | 135.3                      |
|   | <b>\$ 94.0</b>             | <b>\$ 68.7</b>             | <b>\$ 199.3</b>            | <b>\$ 145.3</b>            |

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

**Empire Company Limited**  
**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 | Minority Interest | Total Equity |
|---|---------------|---------------------|--------------------------------------|-------------------|------------------------------|-------------------|--------------|
| <b>Balance at May 7, 2011</b>   | \$ 323.4      | \$ 4.7              | \$ (18.1)                            | \$ 2,852.1        | \$ 3,162.1                   | \$ 35.8           | \$ 3,197.9   |
| Dividends   | -             | -                   | -                                    | (30.6)            | (30.6)                       | -                 | (30.6)       |
| Employee share options  | -             | 0.5                 | -                                    | -                 | 0.5                          | -                 | 0.5          |
| Capital transactions with special purpose entities  | -             | -                   | -                                    | -                 | -                            | (9.3)             | (9.3)        |
| Transactions with owners  | -             | 0.5                 | -                                    | (30.6)            | (30.1)                       | (9.3)             | (39.4)       |
| Net earnings  | -             | -                   | -                                    | 167.3             | 167.3                        | 10.0              | 177.3        |
| Other comprehensive income  | -             | -                   | (0.1)                                | -                 | (0.1)                        | -                 | (0.1)        |
| Unrealized losses on derivatives designated as cash flow hedges                                 | -             | -                   | -                                    | -                 | -                            | -                 | -            |
| Reclassification of losses on derivative instruments designated as cash flow hedges to earnings | -             | -                   | 2.4                                  | -                 | 2.4                          | -                 | 2.4          |
| Unrealized gains on available for sale financial assets   | -             | -                   | 0.8                                  | -                 | 0.8                          | -                 | 0.8          |
| Reclassification of losses on available for sale financial assets to earnings                   | -             | -                   | 0.1                                  | -                 | 0.1                          | -                 | 0.1          |
| Actuarial losses on defined benefit plans   | -             | -                   | -                                    | (38.8)            | (38.8)                       | -                 | (38.8)       |
| Share of other comprehensive income of investments, at equity                                   | -             | -                   | 0.7                                  | -                 | 0.7                          | -                 | 0.7          |
| Exchange differences on translation of foreign operations                                       | -             | -                   | 2.9                                  | -                 | 2.9                          | -                 | 2.9          |
| Total comprehensive income for the period   | -             | -                   | 6.8                                  | 128.5             | 135.3                        | 10.0              | 145.3        |
| <b>Balance at November 5, 2011</b>  | \$ 323.4      | \$ 5.2              | \$ (11.3)                            | \$ 2,950.0        | \$ 3,267.3                   | \$ 36.5           | \$ 3,303.8   |

**Balance at May 5, 2012**

|   |          |        |           |            |            |         |            |
|---|----------|--------|-----------|------------|------------|---------|------------|
| Dividends   | \$ 319.3 | \$ 6.1 | \$ (10.8) | \$ 3,081.7 | \$ 3,396.3 | \$ 35.1 | \$ 3,431.4 |
| Employee share options  | -        | 0.3    | -         | (32.6)     | (32.6)     | -       | (32.6)     |
| Capital transactions with special purpose entities  | -        | -      | -         | -          | 0.3        | -       | 0.3        |
| Transactions with owners  | -        | 0.3    | -         | (32.6)     | (32.3)     | (10.2)  | (42.5)     |
| Net earnings  | -        | -      | -         | 202.2      | 202.2      | 9.2     | 211.4      |
| Other comprehensive income  | -        | -      | 0.1       | -          | 0.1        | -       | 0.1        |
| Unrealized gains on derivatives designated as cash flow hedges                                  | -        | -      | -         | -          | -          | -       | -          |
| 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   | -        | -      | 1.2       | -          | 1.2        | -       | 1.2        |
| Reclassification of gains on available for sale financial assets to earnings                    | -        | -      | (3.0)     | -          | (3.0)      | -       | (3.0)      |
| Actuarial losses on defined benefit plans   | -        | -      | -         | (12.0)     | (12.0)     | -       | (12.0)     |
| Share of other comprehensive income of investments, at equity                                   | -        | -      | 0.9       | -          | 0.9        | -       | 0.9        |
| Exchange differences on translation of foreign operations                                       | -        | -      | (0.4)     | -          | (0.4)      | -       | (0.4)      |
| Total comprehensive income for the period   | -        | -      | (0.1)     | 190.2      | 190.1      | 9.2     | 199.3      |
| <b>Balance at November 3, 2012</b>  | \$ 319.3 | \$ 6.4 | \$ (10.9) | \$ 3,239.3 | \$ 3,554.1 | \$ 34.1 | \$ 3,588.2 |

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

| <b>Empire Company Limited</b><br><b>Consolidated Statements of Cash Flows</b><br><b>Unaudited (in millions of Canadian dollars)</b> | <i>13 Weeks Ended</i>            |                                  | <i>26 Weeks Ended</i>            |                                  |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|   | <b>November 3</b><br><b>2012</b> | <b>November 5</b><br><b>2011</b> | <b>November 3</b><br><b>2012</b> | <b>November 5</b><br><b>2011</b> |
| <b>Operations</b>   |                                  |                                  |                                  |                                  |
| Net earnings  | \$ 95.1                          | \$ 80.7                          | \$ 211.4                         | \$ 177.3                         |
| Adjustments for:  |                                  |                                  |                                  |                                  |
| Depreciation  | 78.4                             | 75.1                             | 157.7                            | 151.2                            |
| Income taxes  | 33.7                             | 30.1                             | 77.6                             | 65.8                             |
| Finance costs, net (Note 9)   | 12.1                             | 15.0                             | 27.0                             | 31.6                             |
| Amortization of intangibles   | 10.3                             | 9.4                              | 20.1                             | 18.6                             |
| Gain on disposal of assets (Note 8)   | (10.4)                           | (9.0)                            | (23.9)                           | (15.1)                           |
| Impairment of non-financial assets  | (0.2)                            | 0.4                              | 3.0                              | 0.7                              |
| Amortization of deferred items  | 0.2                              | 0.3                              | 0.4                              | 0.6                              |
| Equity in earnings of other entities, net of dividends received   | 13.1                             | (0.9)                            | 20.9                             | 2.3                              |
| Employee future benefits obligation   | 0.9                              | 0.7                              | 1.7                              | 1.5                              |
| Increase in long-term lease obligation  | 2.4                              | 0.6                              | 0.3                              | 1.0                              |
| (Decrease) increase in long-term provisions   | (10.3)                           | (4.2)                            | (7.1)                            | 2.7                              |
| Stock-based compensation  | 0.1                              | 0.2                              | 0.3                              | 0.5                              |
|   | <u>225.4</u>                     | <u>198.4</u>                     | <u>489.4</u>                     | <u>438.7</u>                     |
| Net change in non-cash working capital  | (63.4)                           | (96.1)                           | (77.3)                           | (76.5)                           |
| Income taxes paid, net  | <u>(22.6)</u>                    | <u>(31.1)</u>                    | <u>(72.3)</u>                    | <u>(93.7)</u>                    |
| Cash flows from operating activities  | <u>139.4</u>                     | <u>71.2</u>                      | <u>339.8</u>                     | <u>268.5</u>                     |
| <b>Investment</b>   |                                  |                                  |                                  |                                  |
| Net increase in investments   | (14.9)                           | (30.5)                           | (43.4)                           | (32.2)                           |
| Property, equipment and investment property purchases   | (129.2)                          | (164.2)                          | (253.8)                          | (272.9)                          |
| Proceeds on disposal of property, equipment and investment property   | 62.5                             | 29.3                             | 72.5                             | 82.4                             |
| Additions to intangibles  | (15.6)                           | (10.8)                           | (23.3)                           | (14.8)                           |
| Loans and other receivables   | 7.5                              | 21.3                             | 11.1                             | 6.3                              |
| Other assets and other long-term liabilities  | (3.7)                            | (4.0)                            | 18.0                             | (11.3)                           |
| Business acquisitions (Note 12)   | (11.1)                           | (13.5)                           | (11.8)                           | (19.9)                           |
| Interest received   | 1.1                              | 0.9                              | 1.8                              | 2.3                              |
| Minority interest   | (2.9)                            | (1.8)                            | (10.2)                           | (9.3)                            |
| Cash flows used in investing activities   | <u>(106.3)</u>                   | <u>(173.3)</u>                   | <u>(239.1)</u>                   | <u>(269.4)</u>                   |
| <b>Financing</b>  |                                  |                                  |                                  |                                  |
| Increase in bank indebtedness   | 29.3                             | 1.0                              | 29.9                             | 6.0                              |
| Issue of long-term debt   | 15.1                             | 28.6                             | 58.2                             | 43.6                             |
| Repayment of long-term debt   | (22.5)                           | (27.4)                           | (246.5)                          | (100.0)                          |
| Interest paid   | (17.7)                           | (22.2)                           | (30.0)                           | (33.7)                           |
| Dividends paid, common shares   | (16.3)                           | (15.3)                           | (32.6)                           | (30.6)                           |
| Cash flows used in financing activities   | <u>(12.1)</u>                    | <u>(35.3)</u>                    | <u>(221.0)</u>                   | <u>(114.7)</u>                   |
| Increase (decrease) in cash and cash equivalents  | 21.0                             | (137.4)                          | (120.3)                          | (115.6)                          |
| Cash and cash equivalents, beginning of period  | <u>368.9</u>                     | <u>637.7</u>                     | <u>510.2</u>                     | <u>615.9</u>                     |
| Cash and cash equivalents, end of period  | <u>\$ 389.9</u>                  | <u>\$ 500.3</u>                  | <u>\$ 389.9</u>                  | <u>\$ 500.3</u>                  |

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

**Empire Company Limited**  
**Notes to the Unaudited Consolidated Financial Statements**  
**November 3, 2012**  
**(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 consolidated financial statements for the period ended November 3, 2012 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. (“Sobeys”), and certain enterprises considered special purpose entities (“SPEs”), 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 consolidated financial statements have been prepared in accordance with International Accounting Standards (“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 consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended May 5, 2012.

The unaudited, interim consolidated financial statements were authorized for issue by the Board of Directors on December 13, 2012.

**Basis of measurement**

The unaudited, interim consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through profit and loss, customer loyalty and financial instruments classified as available for sale.

**Use of estimates and judgments**

The preparation of consolidated financial statements, in conformity with International Financial Reporting Standards (“IFRS”), requires management to make judgements, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. 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 SPEs, 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.

Significant estimates include the valuation of inventories, goodwill, valuation of asset-backed commercial paper, provisions, impairments, employee future benefits, stock-based compensation, loyalty programs, useful lives of property and equipment, investment property and intangibles for purposes of depreciation and amortization and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

**3. Summary of significant accounting policies**

With the exception of the following amendments, these unaudited, interim 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 5, 2012.

**(a) Accounting standards and policies adopted during fiscal 2013**

**(i) Financial instruments: disclosures**

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments became effective in the Company's first quarter of fiscal 2013. No new disclosures were required for these interim consolidated financial statements as a result of implementing these amendments.

**(ii) Deferred tax: recovery of underlying assets**

In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments became effective in the Company's first quarter of fiscal 2013. These amendments did not impact the Company as its investment properties are not measured at fair value.

**(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) 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 and is effective for annual periods beginning on or after January 1, 2013.

**(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 and is effective for annual periods beginning on or after January 1, 2013.

**(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. It is effective for annual periods beginning on or after January 1, 2013.

**(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 is effective for annual periods beginning on or after January 1, 2013.

**(vi) 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 amendments are effective for annual periods beginning on or after January 1, 2013.

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



**Empire Company Limited**  
**Notes to the Unaudited Consolidated Financial Statements**  
**November 3, 2012**  
(in millions of Canadian dollars, except per share amounts)

**4. Inventories**

The cost of inventories recognized as an expense during the 13 and 26 weeks ended November 3, 2012 was \$3,341.3 and \$6,800.6 respectively (November 5, 2011 - \$3,027.3 and \$6,139.4). The Company has recorded \$8.7 (November 5, 2011 - \$15.0) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at November 3, 2012. There were no reversals of inventories written down previously (November 5, 2011 - \$nil).

**5. Investments, at equity**

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

|   | November 3<br>2012 | November 5<br>2011 |
|---|--------------------|--------------------|
| <b>Investment in associates</b>                       |                    |                    |
| Crombie Real Estate Investment Trust ("Crombie REIT") | \$ 183.7           | \$ 124.4           |
| <b>Investment in joint ventures</b>                   |                    |                    |
| Canadian real estate partnerships                     | 88.8               | 90.8               |
| U.S. real estate partnerships                         | 45.3               | 39.4               |
| Canadian Digital Cinema Partnership (Note 12)         | 7.8                | 7.0                |
| <b>Total</b>  | <b>\$ 325.6</b>    | <b>\$ 261.6</b>    |

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

|              | November 3<br>2012 | November 5<br>2011 |
|--------------|--------------------|--------------------|
| Crombie REIT | \$ 570.5           | \$ 443.7           |
| <b>Total</b> | <b>\$ 570.5</b>    | <b>\$ 443.7</b>    |

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

**6. Provisions**

The provisions carrying amounts are comprised of the following:

| November 3, 2012<br>(26 Weeks Ended) | Lease<br>Contracts | Legal         | Environmental  | Other          | Total          |
|--------------------------------------|--------------------|---------------|----------------|----------------|----------------|
| Opening balance                      | \$ 32.3            | \$ 6.9        | \$ 30.9        | \$ 19.7        | \$ 89.8        |
| Assumed in business combination      | -                  | -             | 0.1            | -              | 0.1            |
| Provisions made                      | 1.1                | 2.7           | 1.9            | 8.4            | 14.1           |
| Provisions used                      | (6.3)              | (2.7)         | -              | (4.7)          | (13.7)         |
| Provisions reversed                  | (0.5)              | (0.6)         | -              | (0.3)          | (1.4)          |
| Change due to discounting            | 1.1                | -             | 0.5            | 0.1            | 1.7            |
| <b>Closing balance</b>               | <b>\$ 27.7</b>     | <b>\$ 6.3</b> | <b>\$ 33.4</b> | <b>\$ 23.2</b> | <b>\$ 90.6</b> |
| Current                              | \$ 8.7             | \$ 6.3        | \$ 2.5         | \$ 20.4        | \$ 37.9        |
| Non-current                          | 19.0               | -             | 30.9           | 2.8            | 52.7           |
| <b>Total</b>                         | <b>\$ 27.7</b>     | <b>\$ 6.3</b> | <b>\$ 33.4</b> | <b>\$ 23.2</b> | <b>\$ 90.6</b> |

**Empire Company Limited**  
**Notes to the Unaudited Consolidated Financial Statements**  
**November 3, 2012**  
(in millions of Canadian dollars, except per share amounts)

| <b>November 5, 2011</b><br>(26 Weeks Ended) | <b>Lease</b>     |               |                      |                | <b>Total</b>   |
|---|------------------|---------------|----------------------|----------------|----------------|
|   | <b>Contracts</b> | <b>Legal</b>  | <b>Environmental</b> | <b>Other</b>   |                |
| Opening balance                             | \$ 32.9          | \$ 7.1        | \$ 5.4               | \$ 18.8        | \$ 64.2        |
| Provisions made                             | 7.1              | 1.7           | 2.1                  | 4.7            | 15.6           |
| Provisions used                             | (6.9)            | (1.6)         | (0.2)                | (5.6)          | (14.3)         |
| Provisions reversed                         | (0.9)            | (0.3)         | -                    | (0.1)          | (1.3)          |
| Change due to discounting                   | 0.2              | -             | -                    | 0.1            | 0.3            |
| Closing balance                             | <u>\$ 32.4</u>   | <u>\$ 6.9</u> | <u>\$ 7.3</u>        | <u>\$ 17.9</u> | <u>\$ 64.5</u> |
| Current                                     | \$ 10.1          | \$ 6.9        | \$ 1.2               | \$ 9.3         | \$ 27.5        |
| Non-current                                 | 22.3             | -             | 6.1                  | 8.6            | 37.0           |
| Total                                       | <u>\$ 32.4</u>   | <u>\$ 6.9</u> | <u>\$ 7.3</u>        | <u>\$ 17.9</u> | <u>\$ 64.5</u> |

**Lease contracts**

Lease contract provisions are recorded when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the obligations under the contract. The Company records onerous contract provisions for closed store and theatre locations where it has entered into a lease contract. The provision is measured at the lower of the expected cost to terminate the lease and the expected net cost of continuing the contract. The net cost is derived by considering both the lease payment and sublease income received. Once the store or theatre is closed, a liability is recorded to reflect the present value of the expected liability associated with any lease contract and other contractually obligated costs. Discounting of provisions resulting from lease contracts has been calculated using pre-tax discount rates ranging between 7 and 9 percent.

**Legal costs**

Legal provisions relate to claims of \$6.3 that are outstanding as at November 3, 2012 (November 5, 2011 - \$6.9) that arose in the ordinary course of business.

**Environmental costs**

In accordance with legal and environmental policy requirements the Company has recorded provisions for locations requiring environmental restoration. These provisions primarily relate to decommissioning liabilities recorded for gas station locations owned by the Company at the net present value of the estimated future remediation costs. Discounting of environmental related provisions has been calculated using pre-tax discount rates ranging between 4 and 15 percent.

**Other costs**

The Company continues to complete the rationalization of administration functions and continues to incur costs associated with the development of a new distribution centre in Terrebonne, Québec. These provisions relate mainly to severance costs.

The Company has obligations to provide various forms of support to Crombie REIT pursuant to various agreements between the parties. These amounts are included in other provisions.

**7. Long-term debt**

On August 22, 2011, the Company extended the term of its credit facilities to a maturity date of June 30, 2014. On September 26, 2012, the Company further extended the term of its credit facilities to a maturity date of June 30, 2015.

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, 2016, 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, Canadian prime rate or London InterBank Offered Rate ("LIBOR"). As of November 3, 2012, Sobeys had issued \$80.6 in letters of credit against the revolving term credit facility (May 5, 2012 - \$52.7).

**Empire Company Limited**  
**Notes to the Unaudited Consolidated Financial Statements**  
**November 3, 2012**  
(in millions of Canadian dollars, except per share amounts)

**8. Other income**

|                            | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
|                            | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| Gain on disposal of assets | \$ 10.4            | \$ 1.7             | \$ 11.8            | \$ 5.1             |
| Dilution gains             | -                  | 7.3                | 12.1               | 10.0               |
| Investment income          | 4.1                | 0.5                | 4.4                | 0.8                |
| <b>Total</b>               | <b>\$ 14.5</b>     | <b>\$ 9.5</b>      | <b>\$ 28.3</b>     | <b>\$ 15.9</b>     |

**9. Finance costs, net**

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

|  | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| <b>Finance income</b>  |                    |                    |                    |                    |
| Interest income from cash and cash equivalents                             | \$ 1.1             | \$ 0.9             | \$ 1.8             | \$ 2.3             |
| Fair value gains on cash flow hedges                                       | -                  | -                  | 0.1                | -                  |
| Total finance income   | 1.1                | 0.9                | 1.9                | 2.3                |
| <b>Finance costs</b>   |                    |                    |                    |                    |
| Interest expense on financial liabilities measured at<br>amortized cost    | 12.1               | 13.7               | 25.4               | 28.6               |
| Fair value losses (gains) on forward contracts                             | 0.4                | (0.3)              | 0.6                | (0.1)              |
| Losses on cash flow hedges reclassified from other<br>comprehensive income | -                  | 1.6                | 1.6                | 3.5                |
| Net pension finance costs  | 0.7                | 0.9                | 1.3                | 1.9                |
| Total finance costs  | 13.2               | 15.9               | 28.9               | 33.9               |
| <b>Finance costs, net</b>  | <b>\$ 12.1</b>     | <b>\$ 15.0</b>     | <b>\$ 27.0</b>     | <b>\$ 31.6</b>     |

**10. Earnings per share**

Earnings applicable to common shares are comprised of the following:

|   | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| Earnings attributable to owners of the parent | \$ 93.3            | \$ 78.1            | \$ 202.2           | \$ 167.3           |

Earnings per share is comprised of the following:

|                            | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
|                            | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| Basic earnings per share   | \$ 1.37            | \$ 1.15            | \$ 2.97            | \$ 2.46            |
| Diluted earnings per share | \$ 1.37            | \$ 1.15            | \$ 2.97            | \$ 2.46            |

The weighted average number of outstanding shares as at November 3, 2012 used for basic earnings per share amounted to 67,948,510 (November 5, 2011 - 67,948,510) shares.

**Empire Company Limited**  
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(in millions of Canadian dollars, except per share amounts)

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

|  | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| Weighted average number of shares used in basic earnings per share                 | 67,948,510         | 67,948,510         | 67,948,510         | 67,948,510         |
| Shares deemed to be issued for no consideration in respect of stock-based payments | 120,271            | 95,661             | 107,538            | 88,027             |
| Weighted average number of shares used in diluted earnings per share               | 68,068,781         | 68,044,171         | 68,056,048         | 68,036,537         |

### 11. 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:

|                                  | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                  | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| <b>Segmented sales</b>           |                    |                    |                    |                    |
| Food retailing                   | \$ 4,345.4         | \$ 3,983.8         | \$ 8,855.4         | \$ 8,089.9         |
| Investments and other operations | 61.8               | 55.3               | 112.4              | 106.4              |
|                                  | 4,407.2            | 4,039.1            | 8,967.8            | 8,196.3            |
| Elimination of inter-segment     | 3.1                | 2.8                | 6.0                | 5.8                |
| Total                            | \$ 4,404.1         | \$ 4,036.3         | \$ 8,961.8         | \$ 8,190.5         |

|   | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| <b>Segmented operating income</b>           |                    |                    |                    |                    |
| Food retailing                              | \$ 127.7           | \$ 109.8           | \$ 284.0           | \$ 245.2           |
| Investments and other operations            |                    |                    |                    |                    |
| Crombie REIT                                | 4.2                | 4.8                | 9.7                | 9.6                |
| Real estate partnerships                    | 4.6                | 2.9                | 9.2                | 10.4               |
| Other operations, net of corporate expenses | 4.4                | 8.3                | 13.1               | 9.5                |
|   | 13.2               | 16.0               | 32.0               | 29.5               |
| Total                                       | \$ 140.9           | \$ 125.8           | \$ 316.0           | \$ 274.7           |

**Empire Company Limited**  
**Notes to the Unaudited Consolidated Financial Statements**  
**November 3, 2012**  
(in millions of Canadian dollars, except per share amounts)

|                                  | November 3<br>2012 | November 5<br>2011 |
|----------------------------------|--------------------|--------------------|
| <b>Total assets by segment</b>   |                    |                    |
| Food retailing                   | \$ 6,238.1         | \$ 6,045.9         |
| Investments and other operations | 659.0              | 534.3              |
|                                  | <b>\$ 6,897.1</b>  | <b>\$ 6,580.2</b>  |

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

|                        | 13 Weeks Ended     |                    | 26 Weeks Ended     |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| Total operating income | \$ 140.9           | \$ 125.8           | \$ 316.0           | \$ 274.7           |
| Finance costs, net     | 12.1               | 15.0               | 27.0               | 31.6               |
| Total                  | <b>\$ 128.8</b>    | <b>\$ 110.8</b>    | <b>\$ 289.0</b>    | <b>\$ 243.1</b>    |

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

## 12. Business acquisitions and formations

The Company acquired franchisee and non-franchisee stores, retail gas locations and theatres. 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 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     |                    | 26 Weeks Ended     |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | November 3<br>2012 | November 5<br>2011 | November 3<br>2012 | November 5<br>2011 |
| <b>Stores, retail gas locations and theatres</b> |                    |                    |                    |                    |
| Inventories                                      | \$ 0.6             | \$ 1.9             | \$ 0.8             | \$ 3.0             |
| Property and equipment                           | 6.2                | 1.8                | 6.7                | 3.1                |
| Intangibles                                      | -                  | 0.2                | -                  | 0.3                |
| Goodwill   | 5.5                | 9.4                | 5.6                | 13.3               |
| Provisions                                       | -                  | -                  | (0.1)              | -                  |
| Other (liabilities) assets                       | (1.2)              | 0.2                | (1.2)              | 0.2                |
| Cash consideration                               | <b>\$ 11.1</b>     | <b>\$ 13.5</b>     | <b>\$ 11.8</b>     | <b>\$ 19.9</b>     |

The businesses acquired contributed sales of \$7.7 and \$8.1 and earnings of \$nil and \$nil for the 13 and 26 weeks ended November 3, 2012 respectively.

### Shell acquisition

During the second quarter of fiscal 2013, management finalized the purchase price allocation related to the acquisition of 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. As a result, the consolidated balance sheet as at November 3, 2012 was adjusted by an increase to land of \$1.7, a decrease to equipment of \$3.4, and goodwill increased \$1.7.

### Canadian Digital Cinema Partnership

During the first quarter of fiscal 2012, the Company formed Canadian Digital Cinema Partnership ("CDCP"), a joint venture with Cineplex Inc. ("Cineplex"). The costs of implementing digital projection systems in the venturers' theatres will be funded by CDCP, through a separate credit facility, which is non-recourse to the venturers, and the collection of virtual print fees from distributors.

Empire transferred digital projectors valued at \$7.6 in exchange for a 21.8 percent interest in CDCP. Cineplex and Empire each have 50 percent of the voting rights of CDCP. Empire accounts for its investment in CDCP using the equity method.

**Empire Company Limited**  
**Notes to the Unaudited Consolidated Financial Statements**  
**November 3, 2012**  
**(in millions of Canadian dollars, except per share amounts)**

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The digital projection systems leased from CDCP will replace most of Empire's remaining 35 millimeter projection systems and allow Empire to add additional 3D screens to the circuit.

### **13. Related party transactions**

The Company has related party transactions with Crombie REIT. The Company holds a 43.0 percent ownership interest and accounts for its investment using the equity method. As a result of the conversion of Crombie REIT debentures during the second quarter of the current fiscal year, the Company's interest in Crombie REIT increased from 42.5 to 43.0 percent.

On October 20, 2011, Crombie REIT closed a bought-deal offering of units at a price of \$12.85 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 of Class B units (which are convertible on a one-for-one basis into units of Crombie REIT).

During the quarter ended November 5, 2011, fixed rate secured mortgages provided to Crombie REIT in the amount of \$5.6 were repaid in their entirety.

During the 26 weeks ended November 3, 2012, the Company sold three (November 5, 2011 - six) properties to Crombie REIT, three (November 5, 2011 - five) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of \$50.2 (November 5, 2011 - \$56.6), resulting in a pre-tax gain of \$5.6 (November 5, 2011 - \$4.3), which was recognized in the consolidated statements of earnings. During the quarter ended November 5, 2011, the Company acquired a property from Crombie REIT for \$5.0 which management believes is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional \$2.0 was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of \$7.0. No properties were acquired during the quarter ended November 3, 2012.

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 September 25, 2012, the Company converted convertible unsecured subordinated debentures with a face value of \$10.0 into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of \$13.8, resulting in a pre-tax gain of \$3.8.

During the quarter ended November 3, 2012, the Company acquired a parcel of land from a joint venture in which the Company holds a 40.7 percent interest. Cash consideration paid for the land was \$7.6. The gain realized of \$1.6 was eliminated from property and equipment.

### **14. 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.

### **15. Employee future benefits**

During the second quarter of fiscal 2013, the net employee future benefits expense reported in net earnings was \$8.3 (November 5, 2011 - \$7.9). For the 26 weeks ended November 3, 2012 it was \$16.5 (November 5, 2011 - \$16.2). Actuarial gains (losses) before taxes on defined benefit pension plans for the 13 and 26 weeks ended November 3, 2012 were \$3.1 and \$(16.1) respectively (November 5, 2011 - \$(24.3) and \$(52.2)). These gains (losses) have been recognized in other comprehensive income.

## **16. 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 consolidated statements of earnings. At November 3, 2012 there were 130,271 (November 5, 2011 - 112,285) DSUs outstanding. During the 13 and 26 weeks ended November 3, 2012, the compensation expense was \$0.6 and \$0.7 respectively (November 5, 2011 - \$0.6 and \$1.2).

### **Stock option plan**

During the first quarter, the Company granted an additional 45,310 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. These options allow holders to purchase Non-Voting Class A shares at \$53.93 per share and expire in June 2020. The options vest over four years. These options have been treated as stock-based compensation.

The compensation cost relating to the 13 and 26 weeks ended November 3, 2012 was \$0.1 and \$0.3 respectively (November 5, 2011 - \$0.2 and \$0.5) with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the stock option compensation cost was \$0.3 (November 5, 2011 - \$0.5). The compensation cost was calculated using the Black-Scholes model with the following assumptions:

|                         |            |
|-------------------------|------------|
| Expected life           | 5.25 years |
| Risk-free interest rate | 1.40%      |
| Expected volatility     | 19.4%      |
| Dividend yield          | 1.78%      |

## **17. Subsequent events**

On November 7, 2012, the Company sold its petroleum and natural gas properties for \$17.1 before costs. Purchase price approximates the carrying value of these assets, therefore minimal gain or loss is anticipated related to this transaction. The assets have been included in assets held for sale.

On November 26, 2012, Crombie REIT announced a bought-deal public offering of units at a price of \$14.75 per unit. Concurrent with the public offering, a wholly owned subsidiary of the Company will subscribe for approximately \$24.5 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 43.0 percent to 42.9 percent.

# 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, CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc.\*

## AFFILIATED COMPANY WEB ADDRESSES

[www.sobeyscorporate.com](http://www.sobeyscorporate.com)  
[www.empiretheatres.com](http://www.empiretheatres.com)

## TRANSFER AGENT

CIBC Mellon Trust Company  
c/o Canadian Stock Transfer Company Inc.\*  
Investor Correspondence  
P.O. Box 700 Station B  
Adelaide Street Postal Station  
Montreal Quebec  
H3B 3K3  
Telephone: (800) 387-0825  
E-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

\* Canadian Stock Transfer Company Inc. is operating the transfer agency business in the name of CIBC Mellon Trust Company for a transitional period.

## MULTIPLE MAILINGS

If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. at (800) 387-0825 to eliminate the multiple mailings.

## DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2013

| Record Date      | Payment Date     |
|------------------|------------------|
| July 13, 2012    | July 31, 2012    |
| October 15, 2012 | October 31, 2012 |
| January 15, 2013 | January 31, 2013 |
| April 15, 2013*  | April 30, 2013*  |

\* Subject to the approval by Board of Directors

## OUTSTANDING SHARES

| As of December 13, 2012       |            |
|-------------------------------|------------|
| 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  
610 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)

69,398

## 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  
New Glasgow, Nova Scotia





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