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**Empire Company Limited**  
**Interim Condensed Consolidated Financial Statements**  
**February 3, 2018**

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**CONTENTS**

Condensed Consolidated Balance Sheets..... 1

Condensed Consolidated Statements of Earnings ..... 2

Condensed Consolidated Statements of Comprehensive Income ..... 3

Condensed Consolidated Statements of Changes in Shareholders' Equity ..... 4

Condensed Consolidated Statements of Cash Flows..... 5

Notes to the Unaudited Interim Condensed Consolidated Financial Statements..... 6 - 12

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

	February 3 2018	May 6 2017	February 4 2017
<b>ASSETS</b>			
Current			
Cash and cash equivalents	\$ 458.1	\$ 207.3	\$ 203.3
Receivables	386.8	413.6	413.6
Inventories (Note 4)	1,314.5	1,322.2	1,374.1
Prepaid expenses	126.7	117.5	120.5
Loans and other receivables	21.7	25.5	20.9
Income taxes receivable	24.7	31.9	23.6
Assets held for sale	23.9	48.5	31.6
	<u>2,356.4</u>	<u>2,166.5</u>	<u>2,187.6</u>
Loans and other receivables	79.4	82.1	85.2
Investments (Note 14)	-	25.1	24.7
Investments, at equity (Note 5)	601.3	648.4	653.4
Other assets	36.4	43.3	45.1
Property and equipment	2,881.4	3,033.3	3,112.4
Investment property	94.1	103.0	82.2
Intangibles	855.7	880.5	881.7
Goodwill	1,001.9	1,003.4	1,003.3
Deferred tax assets	730.5	709.9	696.5
	<u>\$ 8,637.1</u>	<u>\$ 8,695.5</u>	<u>\$ 8,772.1</u>
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	\$ 2,146.0	\$ 2,230.2	\$ 2,160.1
Income taxes payable	38.3	38.4	32.4
Provisions (Note 6)	151.5	88.1	157.5
Long-term debt due within one year (Note 7)	627.4	134.0	44.0
	<u>2,963.2</u>	<u>2,490.7</u>	<u>2,394.0</u>
Provisions (Note 6)	133.4	105.8	108.5
Long-term debt (Note 7)	1,150.7	1,736.8	1,913.9
Other long-term liabilities	156.1	141.7	136.5
Employee future benefits	349.1	374.0	313.7
Deferred tax liabilities	152.3	143.8	165.0
	<u>4,904.8</u>	<u>4,992.8</u>	<u>5,031.6</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	2,039.5	2,034.4	2,034.5
Contributed surplus	21.3	25.3	23.5
Retained earnings	1,594.0	1,572.8	1,614.0
Accumulated other comprehensive income	12.1	11.7	12.0
	<u>3,666.9</u>	<u>3,644.2</u>	<u>3,684.0</u>
Non-controlling interest	65.4	58.5	56.5
	<u>3,732.3</u>	<u>3,702.7</u>	<u>3,740.5</u>
	<u>\$ 8,637.1</u>	<u>\$ 8,695.5</u>	<u>\$ 8,772.1</u>

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

On Behalf of the Board

(signed) "James Dickson"  
 Director

(signed) "Michael Medline"  
 Director

Empire Company Limited Condensed Consolidated Statements of Earnings Unaudited (in millions of Canadian dollars, except per share amounts)	13 Weeks Ended		39 Weeks Ended	
	February 3	February 4	February 3	February 4
	2018	2017	2018	2017
Sales	\$ 6,029.2	\$ 5,889.8	\$ 18,328.5	\$ 18,007.3
Other income (Note 8)	17.5	9.0	38.6	42.0
Share of earnings from investments, at equity	31.5	23.9	59.9	64.6
Operating expenses				
Cost of sales	4,584.5	4,495.0	13,879.3	13,721.0
Selling and administrative expenses	1,385.6	1,359.1	4,311.8	4,121.3
Operating income	108.1	68.6	235.9	271.6
Finance costs, net (Note 9)	26.6	28.8	85.1	90.3
Earnings before income taxes	81.5	39.8	150.8	181.3
Income tax expense	22.9	11.4	44.5	41.1
Net earnings	\$ 58.6	\$ 28.4	\$ 106.3	\$ 140.2
Earnings for the period attributable to:				
Non-controlling interest	\$ 0.5	\$ (2.1)	\$ 17.8	\$ 11.2
Owners of the Company	58.1	30.5	88.5	129.0
	\$ 58.6	\$ 28.4	\$ 106.3	\$ 140.2
Earnings per share (Note 10)				
Basic	\$ 0.21	\$ 0.11	\$ 0.33	\$ 0.48
Diluted	\$ 0.21	\$ 0.11	\$ 0.33	\$ 0.47
Weighted average number of common shares outstanding, in millions (Note 10)				
Basic	271.7	271.1	271.8	271.5
Diluted	272.2	271.7	272.0	272.0

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

Empire Company Limited Condensed Consolidated Statements of Comprehensive Income Unaudited (in millions of Canadian dollars)	13 Weeks Ended		39 Weeks Ended	
	February 3	February 4	February 3	February 4
	2018	2017	2018	2017
Net earnings	\$ 58.6	\$ 28.4	\$ 106.3	\$ 140.2
Other comprehensive (loss) income				
Items that will be reclassified subsequently to net earnings				
Unrealized (losses) gains on derivatives designated as cash flow hedges (net of taxes of \$(0.2) and \$(0.2) (2017 - \$0.3 and \$0.4))	-	(0.6)	0.9	(0.8)
Share of other comprehensive income of investments, at equity (net of taxes of \$(0.1) and \$(0.7) (2017 - \$(0.1) and \$(0.3)))	0.1	0.2	1.5	0.6
Exchange differences on translation of foreign operations (net of taxes of \$0.5 and \$0.9 (2017 - \$ nil and \$0.9))	0.7	1.0	(1.2)	2.3
	<u>0.8</u>	<u>0.6</u>	<u>1.2</u>	<u>2.1</u>
Items that will not be reclassified subsequently to net earnings				
Actuarial (losses) gains on defined benefit plans (net of taxes of \$1.2 and \$(6.8) (2017 - \$(12.6) and \$(8.5)))	(3.6)	32.9	18.2	22.1
Unrealized losses on available for sale financial assets (net of taxes of \$ nil and \$0.2 (2017 - \$ nil and \$ nil))	-	(0.2)	(0.8)	-
	<u>-</u>	<u>(0.2)</u>	<u>(0.8)</u>	<u>-</u>
Total comprehensive income	<u>\$ 55.8</u>	<u>\$ 61.7</u>	<u>\$ 124.9</u>	<u>\$ 164.4</u>
Total comprehensive income for the period attributable to:				
Non-controlling interest	\$ 0.5	\$ (2.1)	\$ 17.8	\$ 11.2
Owners of the Company	<u>55.3</u>	<u>63.8</u>	<u>107.1</u>	<u>153.2</u>
	<u>\$ 55.8</u>	<u>\$ 61.7</u>	<u>\$ 124.9</u>	<u>\$ 164.4</u>

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

<b>Empire Company Limited Condensed Consolidated Statements of Changes in Shareholders' Equity Unaudited (in millions of Canadian dollars)</b>	<b>Capital Stock</b>	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total Attributable to Owners of the Company</b>	<b>Non- controlling Interest</b>	<b>Total Equity</b>
<b>Balance at May 7, 2016</b>	\$ 2,045.1	\$ 22.5	\$ 9.9	\$ 1,546.4	\$ 3,623.9	\$ 59.1	\$ 3,683.0
Dividends declared on common shares	-	-	-	(83.5)	(83.5)	-	(83.5)
Equity based compensation, net	-	1.0	-	-	1.0	-	1.0
Acquisition of shares held in trust	(10.6)	-	-	-	(10.6)	-	(10.6)
Capital transactions with structured entities	-	-	-	-	-	(13.8)	(13.8)
Transactions with owners	(10.6)	1.0	-	(83.5)	(93.1)	(13.8)	(106.9)
Net earnings	-	-	-	129.0	129.0	11.2	140.2
Other comprehensive income	-	-	2.1	22.1	24.2	-	24.2
Total comprehensive income for the period	-	-	2.1	151.1	153.2	11.2	164.4
<b>Balance at February 4, 2017</b>	<b>\$ 2,034.5</b>	<b>\$ 23.5</b>	<b>\$ 12.0</b>	<b>\$ 1,614.0</b>	<b>\$ 3,684.0</b>	<b>\$ 56.5</b>	<b>\$ 3,740.5</b>
<b>Balance at May 6, 2017</b>	<b>\$ 2,034.4</b>	<b>\$ 25.3</b>	<b>\$ 11.7</b>	<b>\$ 1,572.8</b>	<b>\$ 3,644.2</b>	<b>\$ 58.5</b>	<b>\$ 3,702.7</b>
Dividends declared on common shares	-	-	-	(85.5)	(85.5)	-	(85.5)
Equity based compensation, net	0.4	(4.0)	-	-	(3.6)	-	(3.6)
Shares held in trust, net	4.7	-	-	-	4.7	-	4.7
Capital transactions with structured entities	-	-	-	-	-	(10.9)	(10.9)
Transactions with owners	5.1	(4.0)	-	(85.5)	(84.4)	(10.9)	(95.3)
Net earnings	-	-	-	88.5	88.5	17.8	106.3
Other comprehensive income	-	-	0.4	18.2	18.6	-	18.6
Total comprehensive income for the period	-	-	0.4	106.7	107.1	17.8	124.9
<b>Balance at February 3, 2018</b>	<b>\$ 2,039.5</b>	<b>\$ 21.3</b>	<b>\$ 12.1</b>	<b>\$ 1,594.0</b>	<b>\$ 3,666.9</b>	<b>\$ 65.4</b>	<b>\$ 3,732.3</b>

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

Empire Company Limited Condensed Consolidated Statements of Cash Flows Unaudited (in millions of Canadian dollars)	13 Weeks Ended		39 Weeks Ended	
	February 3 2018	February 4 2017	February 3 2018	February 4 2017
<b>Operations</b>				
Net earnings	\$ 58.6	\$ 28.4	\$ 106.3	\$ 140.2
Adjustments for:				
Depreciation	86.3	89.0	266.2	266.9
Income tax expense	22.9	11.4	44.5	41.1
Finance costs, net (Note 9)	26.6	28.8	85.1	90.3
Amortization of intangibles	21.7	21.8	65.8	67.0
Net gain on disposal of assets	(11.8)	(1.7)	(19.8)	(21.0)
Impairment of non-financial assets, net	2.9	5.6	7.2	16.5
Amortization of deferred items	1.2	3.1	6.1	9.5
Equity in earnings of other entities, net of distributions received	15.7	14.2	47.4	17.4
Employee future benefits	(0.5)	2.2	(0.1)	7.5
Increase in long-term lease obligation	3.7	4.0	10.0	11.7
(Decrease) increase in long-term provisions	(4.2)	(11.9)	22.8	(32.4)
Equity based compensation, net	0.9	2.1	5.2	1.6
Net change in non-cash working capital	78.5	(74.8)	(24.4)	(57.5)
Income taxes paid, net	(17.8)	(21.7)	(56.1)	(76.1)
Cash flows from operating activities	<u>284.7</u>	<u>100.5</u>	<u>566.2</u>	<u>482.7</u>
<b>Investment</b>				
Property, equipment and investment property purchases	(49.9)	(83.6)	(163.7)	(368.9)
Proceeds on disposal of assets	34.6	11.3	104.0	388.9
Additions to intangibles	(21.0)	(12.7)	(40.3)	(33.7)
Loans and other receivables	4.0	14.7	6.5	13.8
Tenant inducements	-	-	-	58.8
Other assets and other long-term liabilities	2.3	4.6	(0.8)	(0.6)
Business acquisitions	(2.2)	(3.0)	(3.2)	(21.7)
Interest received	0.6	-	0.7	1.0
Proceeds on redemption of investment	-	-	24.3	-
Cash flows (used in) from investing activities	<u>(31.6)</u>	<u>(68.7)</u>	<u>(72.5)</u>	<u>37.6</u>
<b>Financing</b>				
Issue of long-term debt	17.1	2.5	55.3	42.9
Repayment of long-term debt	(20.5)	(6.4)	(77.0)	(368.8)
Net repayment of credit facilities	(23.1)	-	(72.8)	(93.0)
Interest paid	(8.3)	(8.1)	(52.0)	(54.9)
Acquisition of shares held in trust	-	-	-	(10.6)
Dividends paid, common shares	(28.5)	(27.8)	(85.5)	(83.5)
Non-controlling interest	(0.4)	(1.3)	(10.9)	(13.8)
Cash flows used in financing activities	<u>(63.7)</u>	<u>(41.1)</u>	<u>(242.9)</u>	<u>(581.7)</u>
Increase (decrease) in cash and cash equivalents	189.4	(9.3)	250.8	(61.4)
Cash and cash equivalents, beginning of period	<u>268.7</u>	<u>212.6</u>	<u>207.3</u>	<u>264.7</u>
Cash and cash equivalents, end of period	<u>\$ 458.1</u>	<u>\$ 203.3</u>	<u>\$ 458.1</u>	<u>\$ 203.3</u>

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

**Empire Company Limited**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**February 3, 2018**  
**(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 Canadian company whose key businesses are food retailing and related real estate. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The unaudited interim condensed consolidated financial statements for the period ended February 3, 2018 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. (“Sobeys”), and certain enterprises considered structured entities (“SEs”), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and its joint ventures are accounted for using the equity method. As at February 3, 2018, the Company’s business operations were conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 11, *Segmented Information*. The Company’s Food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company’s first quarter. The Company’s fiscal year ends on the first Saturday in May.

**2. Basis of preparation**

**Statement of compliance**

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and note disclosures normally included in annual consolidated financial statements have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended May 6, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2018.

**Basis of measurement**

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

**Use of estimates and judgments**

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

Estimates, judgments and assumptions that could have a significant impact on the amounts recognized in the unaudited interim condensed consolidated financial statements are summarized in the Company’s annual consolidated financial statements for the year ended May 6, 2017 and remain unchanged for the period ended February 3, 2018.



**Empire Company Limited**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**February 3, 2018**  
(in millions of Canadian dollars, except per share amounts)

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**3. Summary of significant accounting policies**

These unaudited interim condensed consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 6, 2017, with the exception of the following:

**Changes to accounting standards adopted during fiscal 2018**

**Statement of cash flows**

In January 2016, the IASB issued Disclosure Initiative Amendments to IAS 7, "Statement of Cash Flows". These amendments require entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash and non-cash changes. These amendments became effective during the first quarter of fiscal 2018 and had no material impact on the Company's consolidated financial statements. A reconciliation of long-term debt has been presented in Note 7.

**Share-based payment**

In June 2016, the IASB issued amendments to IFRS 2, "Share-based payment". The amendments provide clarification around the effects of vesting conditions on cash-settled share-based payment transactions, classification of share-based payment transactions with net settlement features and modification of the terms and conditions of a share-based payment that changes the classification of the transaction. These amendments are effective for annual periods beginning on or after January 1, 2018. The Company early adopted these amendments in the first quarter of fiscal 2018.

**4. Inventories**

The cost of inventories recognized as an expense during the 13 and 39 weeks ended February 3, 2018 was \$4,584.5 and \$13,879.3 respectively (February 4, 2017 - \$4,495.0 and \$13,721.0). The Company recorded an expense of \$1.6 (February 4, 2017 - \$3.9) for the write-down of inventories below cost to net realizable value for inventories on hand. There were no reversals of inventories written down previously (February 4, 2017 - \$ nil).

**5. Investments, at equity**

	<b>February 3 2018</b>	<b>February 4 2017</b>
<b>Investment in associates</b>		
Crombie Real Estate Investment Trust ("Crombie REIT")	\$ 458.3	\$ 462.6
Canadian real estate partnerships	98.6	139.3
U.S. real estate partnerships	34.8	42.1
<b>Investment in joint ventures</b>		
Canadian Digital Cinema Partnership ("CDCP")	9.6	9.4
<b>Total</b>	<b>\$ 601.3</b>	<b>\$ 653.4</b>

The fair value of the investment based on a published price quote on the stock exchange is as follows:

	<b>February 3 2018</b>	<b>February 4 2017</b>
Crombie REIT	\$ 820.9	\$ 832.4

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

**Empire Company Limited**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**February 3, 2018**  
(in millions of Canadian dollars, except per share amounts)

**6. Provisions**

<b>February 3, 2018</b>	<b>Lease Contracts</b>	<b>Legal</b>	<b>Environmental</b>	<b>Restructuring<sup>(1)</sup></b>	<b>Onerous Contracts</b>	<b>Total</b>
Opening balance	\$ 29.9	\$ 6.7	\$ 49.0	\$ 96.3	\$ 12.0	\$ 193.9
Provisions made	8.6	5.7	1.0	150.5	-	165.8
Provisions used	(8.2)	(3.5)	(0.9)	(50.2)	-	(62.8)
Provisions reversed	(1.3)	(1.0)	(0.6)	(11.2)	(2.7)	(16.8)
Change due to discounting	1.4	-	1.1	2.3	-	4.8
<b>Closing balance</b>	<b>\$ 30.4</b>	<b>\$ 7.9</b>	<b>\$ 49.6</b>	<b>\$ 187.7</b>	<b>\$ 9.3</b>	<b>\$ 284.9</b>
Current	\$ 13.8	\$ 7.9	\$ 3.1	\$ 117.4	\$ 9.3	\$ 151.5
Non-current	16.6	-	46.5	70.3	-	133.4
<b>Total</b>	<b>\$ 30.4</b>	<b>\$ 7.9</b>	<b>\$ 49.6</b>	<b>\$ 187.7</b>	<b>\$ 9.3</b>	<b>\$ 284.9</b>

<sup>(1)</sup> Restructuring provisions relate to the Company's initiatives to simplify organizational structures and reduce costs. As a result of these initiatives, a \$150.5 restructuring provision has been recorded during the 39 weeks ended February 3, 2018. Of this amount, \$124.5 relates to a single organizational restructuring initiative and is expected to be utilized until fiscal 2021. These costs have been recorded in selling and administrative expenses on the condensed consolidated statements of earnings.

**7. Long-term debt**

On June 2, 2017, Sobeys entered a new, senior, unsecured non-revolving credit facility for \$500.0. The facility bears floating interest tied to Canadian prime rate or bankers' acceptance rates. The facility is intended to be used to repay long-term debt due in calendar 2018.

The following table reconciles the changes in cash flows from financing activities for long-term debt for the 13 and 39 weeks ended February 3, 2018:

	<b>13 Weeks Ended</b>	<b>39 Weeks Ended</b>
Opening balance	\$ 1,804.1	\$ 1,870.8
Issuance of debt	17.1	55.3
Repayments	(20.5)	(77.0)
Net repayment of credit facilities	(23.1)	(72.8)
Total cash flow used in long-term debt financing activities	(26.5)	(94.5)
Deferred financing costs	0.5	1.8
<b>Closing balance</b>	<b>\$ 1,778.1</b>	<b>\$ 1,778.1</b>

**8. Other income**

	<b>13 Weeks Ended</b>		<b>39 Weeks Ended</b>	
	<b>February 3 2018</b>	<b>February 4 2017</b>	<b>February 3 2018</b>	<b>February 4 2017</b>
Net gain on disposal of assets	\$ 11.8	\$ 1.7	\$ 19.8	\$ 21.0
Lease revenue from owned property	5.7	7.3	18.8	21.0
<b>Total</b>	<b>\$ 17.5</b>	<b>\$ 9.0</b>	<b>\$ 38.6</b>	<b>\$ 42.0</b>

**Empire Company Limited**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**February 3, 2018**  
(in millions of Canadian dollars, except per share amounts)

**9. Finance costs, net**

	13 Weeks Ended		39 Weeks Ended	
	February 3 2018	February 4 2017	February 3 2018	February 4 2017
<b>Finance income</b>				
Interest income from cash and cash equivalents	\$ 0.6	\$ -	\$ 0.7	\$ 0.4
Fair value gains on forward contracts	0.8	0.7	2.3	2.8
Investment income	-	0.3	0.2	0.9
Accretion income on loans and receivables	0.1	0.5	0.5	1.0
Total finance income	1.5	1.5	3.7	5.1
<b>Finance costs</b>				
Interest expense on financial liabilities measured at amortized cost	23.5	25.8	75.3	77.6
Net pension finance costs	2.9	2.8	8.7	8.6
Accretion expense on provisions	1.7	1.7	4.8	9.2
Total finance costs	28.1	30.3	88.8	95.4
Finance costs, net	\$ 26.6	\$ 28.8	\$ 85.1	\$ 90.3

**10. Earnings per share**

	13 Weeks Ended		39 Weeks Ended	
	February 3 2018	February 4 2017	February 3 2018	February 4 2017
Weighted average number of shares - basic	271,697,569	271,125,980	271,804,244	271,481,749
Shares deemed to be issued for no consideration in respect of stock-based payments	492,624	550,000	183,002	553,366
Weighted average number of shares - diluted	272,190,193	271,675,980	271,987,246	272,035,115

**11. Segmented information**

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

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

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

No asymmetrical allocations of income, expense or assets have been applied between segments.

**Empire Company Limited**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**February 3, 2018**  
(in millions of Canadian dollars, except per share amounts)

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

	13 Weeks Ended		39 Weeks Ended	
	February 3 2018	February 4 2017	February 3 2018	February 4 2017
<b>Segmented operating income</b>				
Food retailing	\$ 78.8	\$ 41.7	\$ 178.4	\$ 206.8
Investments and other operations				
Crombie REIT	11.4	12.8	28.7	33.8
Real estate partnerships	20.0	10.9	30.6	30.2
Other operations, net of corporate expenses	(2.1)	3.2	(1.8)	0.8
	29.3	26.9	57.5	64.8
<b>Total</b>	<b>\$ 108.1</b>	<b>\$ 68.6</b>	<b>\$ 235.9</b>	<b>\$ 271.6</b>

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

	13 Weeks Ended		39 Weeks Ended	
	February 3 2018	February 4 2017	February 3 2018	February 4 2017
Total operating income	\$ 108.1	\$ 68.6	\$ 235.9	\$ 271.6
Finance costs, net	26.6	28.8	85.1	90.3
<b>Total</b>	<b>\$ 81.5</b>	<b>\$ 39.8</b>	<b>\$ 150.8</b>	<b>\$ 181.3</b>

	February 3 2018	February 4 2017
<b>Total assets by segment</b>		
Food retailing	\$ 7,966.8	\$ 8,031.2
Investments and other operations	670.3	740.9
<b>Total</b>	<b>\$ 8,637.1</b>	<b>\$ 8,772.1</b>

## 12. Financial instruments

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

Long-term debt	February 3, 2018	May 6, 2017	February 4, 2017
Total carrying amount	\$ 1,778.1	\$ 1,870.8	\$ 1,957.9
Total fair value	\$ 1,800.9	\$ 1,893.0	\$ 1,926.1

**Empire Company Limited**  
**Notes to the Unaudited Interim Condensed Consolidated Financial Statements**  
**February 3, 2018**  
**(in millions of Canadian dollars, except per share amounts)**

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**13. Stock-based compensation**

**Performance share unit plan**

The Company has awarded performance share units (“PSUs”) to certain employees. The number of PSUs that vest under an award, for the most part, is dependent on time and the achievement of specific performance measures. Upon vesting each employee is entitled to receive Non-Voting Class A shares equal to the number of their vested PSUs. The weighted average fair value of \$20.01 per PSU issued during the 39 weeks ended February 3, 2018 was determined using the Black Scholes model with the following weighted average assumptions:

Share price	\$20.94
Expected life	2.24 years
Risk-free interest rate	1.02%
Expected volatility	27.25%
Dividend yield	2.01%

At February 3, 2018, there were 443,156 (February 4, 2017 - 875,368) PSUs outstanding. The compensation expense (reversal) recorded for the 13 and 39 weeks ended February 3, 2018 was \$1.1 and \$3.5 respectively (February 4, 2017 - \$1.2 and \$(1.2)).

**Stock option plan**

During the 39 weeks ended February 3, 2018, the Company granted 1,285,333 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The weighted average fair value of \$3.54 per option issued during the period was determined using the Black Scholes model with the following weighted average assumptions:

Share price	\$19.21
Expected life	8.02 years
Risk-free interest rate	1.29%
Expected volatility	22.39%
Dividend yield	2.19%

The compensation (reversal) expense recorded for the 13 and 39 weeks ended February 3, 2018 was \$(0.2) and \$1.7 respectively (February 4, 2017 - \$0.9 and \$2.8). The total increase in contributed surplus related to stock options during the 39 weeks ended February 3, 2018 was \$1.3 (February 4, 2017 - \$2.8).

**Deferred stock unit plans**

In the first quarter of fiscal 2017, the Company implemented a new employee deferred stock unit (“DSU”) plan. The DSUs issued to employees vest dependent on time and the achievement of specific performance measures. At February 3, 2018 there were 818,590 (February 4, 2017 - 620,236) DSUs outstanding related to this plan and the total carrying amount of the liability was \$4.7 (February 4, 2017 - \$1.1). The compensation expense recorded for the 13 and 39 weeks ended February 3, 2018 was \$0.5 and \$3.8 respectively (February 4, 2017 - \$0.1 and \$1.1).

Members of the Board of Directors may elect to receive all or any portion of their fees in DSUs in lieu of cash. The number of DSUs received is determined by the market value of the Company’s Non-Voting Class A shares on each directors’ or employees’ fee payment date. At February 3, 2018 there were 185,028 (February 4, 2017 - 249,455) DSUs outstanding and the total carrying amount of the liability was \$5.4 (February 4, 2017 - \$4.1). The compensation expense (reversal) recorded for the 13 and 39 weeks ended February 3, 2018 was \$1.4 and \$2.5 (February 4, 2017 - \$(0.1) and \$(0.2)).

Under both DSU plans, vested DSUs cannot be redeemed until the holder is no longer a director of the Company or the employee has left the Company, respectively. 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.

#### **14. Related party transactions**

The Company has related party transactions with Crombie REIT and key management personnel, including ongoing leases and property management agreements. There have been no material changes to the specified contractual obligations between the Company and Crombie REIT during the quarter, other than as described below. The Company holds a 41.5 percent ownership interest in Crombie REIT and accounts for its investment using the equity method.

On July 4, 2017, Crombie REIT redeemed its 5.00% Series D Convertible Unsecured Subordinate Debentures. In exchange for its investment in the Series D convertible debentures, the Company received \$24.3 in principal and interest payments. There was no gain or loss recognized on the redemption.

During the 39 weeks ended February 3, 2018, Sobeys sold a property to Crombie REIT for cash consideration of \$6.4. This resulted in a pre-tax gain of \$0.2, which has been recognized in other income on the condensed consolidated statements of income.

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

During the 13 and 39 weeks ended February 3, 2018, the net employee future benefits expense reported in net earnings was \$12.8 and \$38.7, respectively (February 4, 2017 - \$13.3 and \$42.4). Actuarial (losses) gains before taxes on defined benefit pension plans for the 13 and 39 weeks ended February 3, 2018 were \$(4.8) and \$25.0 respectively (February 4, 2017 - \$45.5 and \$30.6). These (losses) gains have been recognized in other comprehensive income.