Empire Company Limited
Unaudited Condensed Consolidated Financial Statements
November 2, 2013

CONTENTS

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

	November 2 2013	May 4 2013[1]	November 3 2012[1]
ASSETS			
Current			
Cash and cash equivalents	**$ 792.5**	$ 455.2	$ 389.9
Receivables	**381.8**	381.7	345.2
Inventories (Note 4)	**932.5**	900.8	888.0
Prepaid expenses	**150.8**	86.2	85.1
Loans and other receivables	**44.5**	66.2	34.3
Investments	**-**	14.5	-
Income taxes receivable	**46.9**	33.8	42.0
Assets held for sale (Note 5 and 12)	**50.5**	22.0	50.7
Funds held in escrow (Note 6)	**2,799.1**	-	-
	5,198.6	1,960.4	1,835.2
Loans and other receivables	**55.1**	53.8	56.2
Investments	**24.3**	25.0	31.4
Investments, at equity (Note 7)	**417.5**	407.6	325.6
Other assets	**58.9**	50.5	45.5
Property and equipment	**2,619.1**	2,703.0	2,699.8
Investment property	**94.7**	96.9	86.2
Intangibles	**482.2**	490.5	465.0
Goodwill	**1,271.5**	1,310.4	1,307.7
Deferred tax assets	**57.8**	42.3	44.8
	$ 10,279.7	$ 7,140.4	$ 6,897.4
LIABILITIES			
Current			
Bank indebtedness	**$ -**	$ 6.0	$ 34.3
Accounts payable and accrued liabilities	**1,764.8**	1,765.8	1,694.7
Subscription receipts payable (Note 8)	**1,842.5**	-	-
Notes payable (Note 9)	**987.1**	-	-
Income taxes payable	**29.3**	75.2	31.8
Provisions	**21.3**	30.6	37.9
Long-term debt due within one year (Note 9)	**50.1**	47.6	46.5
	4,695.1	1,925.2	1,845.2
Provisions	**50.9**	52.9	52.7
Long-term debt (Note 9)	**1,090.4**	915.9	893.3
Other long-term liabilities	**258.9**	309.7	337.7
Deferred tax liabilities	**188.4**	180.6	181.4
	6,283.7	3,384.3	3,310.3
SHAREHOLDERS' EQUITY			
Capital stock	**319.8**	319.3	319.3
Contributed surplus	**4.9**	6.7	6.4
Retained earnings	**3,639.8**	3,406.9	3,238.2
Accumulated other comprehensive loss	**(6.8)**	(8.1)	(10.9)
	3,957.7	3,724.8	3,553.0
Non-controlling interest	**38.3**	31.3	34.1
	3,996.0	3,756.1	3,587.1
	$ 10,279.7	$ 7,140.4	$ 6,897.4

See accompanying notes to the unaudited, interim condensed consolidated financial statements.
[1] *Certain fiscal 2013 amounts have been restated (see Note 3(a)(i))*

On Behalf of the Board

(signed) "Rob Dexter"
Director

(signed) "Paul Sobey"
Director

Empire Company Limited **Condensed Consolidated Statements of Earnings** **Unaudited (in millions of Canadian dollars, except per share amounts)**	*13 Weeks Ended*		*26 Weeks Ended*	
	November 2 2013	**November 3 2012[1]**	**November 2 2013**	**November 3 2012[1]**
Sales	**$ 4,428.5**	$ 4,348.8	**$ 9,037.9**	$ 8,857.9
Other income (Note 10)	**7.7**	14.5	**8.4**	28.3
Share of earnings from investments, at equity	**13.6**	9.0	**23.6**	19.3
Operating expenses				
Cost of sales	**3,420.3**	3,335.9	**6,976.4**	6,789.9
Selling and administrative expenses	**923.1**	898.2	**1,853.2**	1,802.4
Operating income	**106.4**	138.2	**240.3**	313.2
Finance costs, net (Note 11)	**21.1**	13.3	**35.9**	29.3
Earnings before income taxes	**85.3**	124.9	**204.4**	283.9
Income taxes	**22.4**	32.8	**51.7**	76.3
Net earnings from continuing operations	**62.9**	92.1	**152.7**	207.6
Net earnings from discontinued operations (Note 12)	**108.7**	1.6	**91.1**	1.1
Net earnings	**$ 171.6**	$ 93.7	**$ 243.8**	$ 208.7
Earnings for the period attributable to:				
Non-controlling interest	**$ 2.4**	$ 1.8	**$ 9.6**	$ 9.2
Owners of the parent				
From continuing operations	**60.5**	90.3	**143.1**	198.4
From discontinued operations	**108.7**	1.6	**91.1**	1.1
	$ 171.6	$ 93.7	**$ 243.8**	$ 208.7
Earnings per share from continuing and discontinued operations (Note 13)				
Basic				
From continuing operations	**$ 0.89**	$ 1.33	**$ 2.11**	$ 2.92
From discontinued operations	**1.60**	0.02	**1.34**	0.02
From net earnings	**$ 2.49**	$ 1.35	**$ 3.45**	$ 2.94
Diluted				
From continuing operations	**$ 0.89**	$ 1.33	**$ 2.10**	$ 2.91
From discontinued operations	**1.59**	0.02	**1.34**	0.02
From net earnings	**$ 2.48**	$ 1.35	**$ 3.44**	$ 2.93
Weighted average number of common shares outstanding, in millions (Note 13)				
Basic	**68.0**	67.9	**68.0**	67.9
Diluted	**68.2**	68.1	**68.1**	68.1

See accompanying notes to the unaudited, interim condensed consolidated financial statements.
[1] *Certain fiscal 2013 amounts have been restated (see Note 3(a)(i) and 12)*

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

	13 Weeks Ended		*26 Weeks Ended*	
	November 2 2013	**November 3 2012[(1)]**	**November 2 2013**	**November 3 2012[(1)]**
Net earnings	**$ 171.6**	$ 93.7	**$ 243.8**	$ 208.7
Other comprehensive income				
Items that will be reclassified subsequently to net earnings				
Unrealized gains on derivatives designated as cash flow hedges (net of income taxes of $ nil and $(0.1) for the 13 and 26 weeks to date (November 3, 2012 - $(0.1) and $(0.1)))	**0.1**	0.3	**0.3**	0.1
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings (net of income taxes of $ nil and $ nil for the 13 and 26 weeks to date (November 3, 2012 - $ nil and $(0.5)))	**-**	-	**-**	1.1
Unrealized (losses) gains on available for sale financial assets (net of income taxes of $ nil and $0.1 for the 13 and 26 weeks to date (November 3, 2012 - $ nil and $(0.2)))	**-**	(0.1)	**(0.6)**	1.2
Reclassification of gains on available for sale financial assets to earnings (net of income taxes of $ nil and $ nil for the 13 and 26 weeks to date (November 3, 2012 - $0.6 and $0.6))	**-**	(3.0)	**-**	(3.0)
Share of other comprehensive income of investments, at equity (net of income taxes of $(0.1) and $(0.2) for the 13 and 26 weeks to date (November 3, 2012 - $(0.2) and $(0.4)))	**0.3**	0.6	**0.7**	0.9
Exchange differences on translation of foreign operations	**(0.3)**	(1.2)	**0.9**	(0.4)
Items that will not be reclassified subsequently to net earnings				
Actuarial gains (losses) on defined benefit plans (net of income taxes of $(1.7) and $(13.4) for the 13 and 26 weeks to date (November 3, 2012 - $(1.2) and $3.3))	**4.8**	3.5	**37.0**	(9.6)
Total comprehensive income	**$ 176.5**	$ 93.8	**$ 282.1**	$ 199.0
Total comprehensive income for the period attributable to:				
Non-controlling interest	**$ 2.4**	$ 1.8	**$ 9.6**	$ 9.2
Owners of the parent	**174.1**	92.0	**272.5**	189.8
	$ 176.5	$ 93.8	**$ 282.1**	$ 199.0
Total comprehensive income attributable to owners of the parent arises from:				
Continuing operations	**$ 65.4**	$ 90.4	**$ 181.4**	$ 188.7
Discontinued operations (Note 12)	**108.7**	1.6	**91.1**	1.1
	$ 174.1	$ 92.0	**$ 272.5**	$ 189.8

See accompanying notes to the unaudited, interim condensed consolidated financial statements.
(1) *Certain fiscal 2013 amounts have been restated (see Note 3(a)(i) and 12)*

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

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Attributable to Parent	Non-controlling Interest	Total Equity
Balance at May 5, 2012[(1)]	$ 319.3	$ 6.1	$ (10.8)	$ 3,080.9	$ 3,395.5	$ 35.1	$ 3,430.6
Dividends declared on common shares	-	-	-	(32.6)	(32.6)	-	(32.6)
Employee share options	-	0.3	-	-	0.3	-	0.3
Capital transactions with structured entities	-	-	-	-	-	(10.2)	(10.2)
Transactions with owners	-	0.3	-	(32.6)	(32.3)	(10.2)	(42.5)
Net earnings	-	-	-	199.5	199.5	9.2	208.7
Other comprehensive income							
Unrealized gains on derivatives designated as cash flow hedges	-	-	0.1	-	0.1	-	0.1
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	-	-	-	(9.6)	(9.6)	-	(9.6)
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)	189.9	189.8	9.2	199.0
Balance at November 3, 2012[(1)]	$ 319.3	$ 6.4	$ (10.9)	$ 3,238.2	$ 3,553.0	$ 34.1	$ 3,587.1
Balance at May 4, 2013[(1)]	$ 319.3	$ 6.7	$ (8.1)	$ 3,406.9	$ 3,724.8	$ 31.3	$ 3,756.1
Dividends declared on common shares	**-**	**-**	**-**	**(35.3)**	**(35.3)**	**-**	**(35.3)**
Employee share options	**0.5**	**(1.8)**	**-**	**(3.0)**	**(4.3)**	**-**	**(4.3)**
Capital transactions with structured entities	**-**	**-**	**-**	**-**	**-**	**(2.6)**	**(2.6)**
Transactions with owners	**0.5**	**(1.8)**	**-**	**(38.3)**	**(39.6)**	**(2.6)**	**(42.2)**
Net earnings	**-**	**-**	**-**	**234.2**	**234.2**	**9.6**	**243.8**
Other comprehensive income							
Unrealized gains on derivatives designated as cash flow hedges	**-**	**-**	**0.3**	**-**	**0.3**	**-**	**0.3**
Unrealized losses on available for sale financial assets	**-**	**-**	**(0.6)**	**-**	**(0.6)**	**-**	**(0.6)**
Actuarial gains on defined benefit plans	**-**	**-**	**-**	**37.0**	**37.0**	**-**	**37.0**
Share of other comprehensive income of investments, at equity	**-**	**-**	**0.7**	**-**	**0.7**	**-**	**0.7**
Exchange differences on translation of foreign operations	**-**	**-**	**0.9**	**-**	**0.9**	**-**	**0.9**
Total comprehensive income for the period	**-**	**-**	**1.3**	**271.2**	**272.5**	**9.6**	**282.1**
Balance at November 2, 2013	**$ 319.8**	**$ 4.9**	**$ (6.8)**	**$ 3,639.8**	**$ 3,957.7**	**$ 38.3**	**$ 3,996.0**

See accompanying notes to the unaudited, interim condensed consolidated financial statements.
[(1)] *Certain fiscal 2013 amounts have been restated (see Note 3(a)(i))*

Empire Company Limited **Condensed Consolidated Statements of Cash Flows** **Unaudited (in millions of Canadian dollars)**	*13 Weeks Ended* **November 2 2013**	*13 Weeks Ended* **November 3 2012**[1]	*26 Weeks Ended* **November 2 2013**	*26 Weeks Ended* **November 3 2012**[1]
Operations				
Net earnings	**$ 171.6**	$ 93.7	**$ 243.8**	$ 208.7
Adjustments for:				
Depreciation	**77.9**	78.4	**157.3**	157.7
Income taxes (Note 12)	**43.9**	33.3	**67.7**	76.7
Finance costs, net (Note 11 and 12)	**21.3**	13.7	**36.4**	30.1
Amortization of intangibles	**12.8**	10.3	**25.3**	20.1
Gain on disposal of assets (Note 10 and 12)	**(133.3)**	(10.4)	**(133.2)**	(23.9)
Impairment of non-financial assets, net	**(7.3)**	(0.2)	**(6.8)**	3.0
Amortization of deferred items	**0.3**	0.2	**0.7**	0.4
Equity in earnings of other entities, net of dividends received	**2.4**	13.1	**12.6**	20.9
Employee future benefits obligation	**0.7**	0.9	**1.3**	1.7
Increase in long-term lease obligation	**0.4**	2.4	**0.3**	0.3
Decrease in long-term provisions	**(1.7)**	(10.3)	**(3.3)**	(7.1)
Stock-based compensation	**2.5**	0.1	**2.6**	0.3
Losses recognized on re-measurement of assets and re-structuring costs of discontinued operations (Note 12)	**4.9**	-	**29.2**	-
Net change in non-cash working capital	**(152.7)**	(65.7)	**(108.6)**	(82.0)
Income taxes paid, net	**(32.9)**	(22.6)	**(146.5)**	(72.3)
Cash flows from operating activities	**10.8**	136.9	**178.8**	334.6
Investment				
Net increase in investments	**(2.3)**	(14.9)	**(1.6)**	(43.4)
Property, equipment and investment property purchases	**(112.3)**	(129.2)	**(220.5)**	(253.8)
Proceeds on disposal of property, equipment and investment property	**271.1**	62.5	**279.5**	72.5
Additions to intangibles	**(10.3)**	(15.6)	**(17.9)**	(23.3)
Loans and other receivables	**10.9**	7.5	**20.3**	11.1
Increase in funds held in escrow	**(987.1)**	-	**(987.1)**	-
Other assets and other long-term liabilities	**(12.3)**	(1.9)	**(16.8)**	21.6
Proceeds on sale of asset-backed commercial paper	**26.0**	-	**26.0**	-
Business acquisitions (Note 15)	**(6.4)**	(11.1)	**(12.3)**	(11.8)
Interest received	**3.0**	1.1	**3.5**	1.8
Non-controlling interest	**-**	(2.9)	**(2.6)**	(10.2)
Cash flows used in investing activities	**(819.7)**	(104.5)	**(929.5)**	(235.5)
Financing				
(Decrease) increase in bank indebtedness	**(3.0)**	29.3	**(6.0)**	29.9
Issue of long-term debt	**238.9**	15.1	**259.7**	58.2
Repayment of long-term debt	**(46.8)**	(22.5)	**(85.3)**	(246.5)
Stock option purchases	**(6.6)**	-	**(6.6)**	-
Interest paid	**(17.8)**	(17.0)	**(25.6)**	(28.4)
Issue of notes payable (Note 9)	**999.8**	-	**999.8**	-
Notes payable deferred financing costs	**(12.7)**	-	**(12.7)**	-
Dividends paid, common shares	**(17.6)**	(16.3)	**(35.3)**	(32.6)
Cash flows from (used in) financing activities	**1,134.2**	(11.4)	**1,088.0**	(219.4)
Increase (decrease) in cash and cash equivalents	**325.3**	21.0	**337.3**	(120.3)
Cash and cash equivalents, beginning of period	**466.7**	368.9	**455.2**	510.2
Total cash and cash equivalents, end of period	**792.0**	389.9	**792.5**	389.9
Cash related to disposal groups classified as held for sale (Note 12)	**(0.5)**	-	**-**	-
Cash and cash equivalents, end of period	**$ 792.5**	$ 389.9	**$ 792.5**	$ 389.9

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

[1] *Certain fiscal 2013 amounts have been restated (see Note 3(a)(i) and 12)*

1. Reporting entity

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company whose key businesses include food retailing and corporate investment activities. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The unaudited, interim condensed consolidated financial statements for the period ended November 2, 2013 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and investments in significant joint ventures are accounted for using the equity method. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

2. Basis of preparation

Statement of compliance

The unaudited, interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosures normally included in annual consolidated financial statements have been omitted or condensed. The unaudited, interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended May 4, 2013.

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

Basis of measurement

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

Use of estimates and judgments

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

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

Estimates, judgments and assumptions that could have a significant impact on the amounts recognized in the condensed consolidated financial statements are summarized in the Company's annual consolidated financial statements for the year ended May 4, 2013 and remain unchanged for the period ended November 2, 2013.

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

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

3. Summary of significant accounting policies

With the exception of the following amendments, these unaudited, interim condensed consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 4, 2013.

(a) Accounting standards and policies adopted during fiscal 2014

(i) Employee benefits

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

Condensed Consolidated Statements of Earnings and Comprehensive Income Increase (Decrease)	**November 3, 2012 (13 Weeks Ended)**	**November 3, 2012 (26 Weeks Ended)**	**May 4, 2013 (52 Weeks Ended)**
Selling and administrative expenses	$ 0.2	$ 0.5	$ 0.9
Operating income	(0.2)	(0.5)	(0.9)
Finance costs, net	1.6	3.1	6.2
Earnings before income taxes	(1.8)	(3.6)	(7.1)
Income taxes	(0.4)	(0.9)	(1.8)
Net earnings	(1.4)	(2.7)	(5.3)
Other comprehensive income, net of taxes	1.2	2.4	4.7
Total comprehensive income	$ (0.2)	$ (0.3)	$ (0.6)

Condensed Consolidated Balance Sheets Increase (Decrease)	**As at November 3, 2012**	**As at May 4, 2013**	**As at May 5, 2012**
Deferred tax assets	$ 0.3	$ 0.3	$ 0.2
Other long-term liabilities	1.4	1.7	1.0
Retained earnings	(1.1)	(1.4)	(0.8)

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

(ii) Consolidated financial statements

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

(iii) Joint arrangements

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

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

(v) Fair value measurement
In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This standard became effective in the first quarter of 2014. The adoption of this standard had no measurement impact on the Company's financial results. Enhanced disclosures have been included in Note 16 to these unaudited, interim condensed consolidated financial statements.

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

(b) Future accounting policies

(i) Financial instruments
In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosure about risk management activity. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(ii) Financial instruments: asset and liability offsetting
In December 2011, the IASB amended IAS 32, "Financial Instruments: Presentation", to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014.

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

4. Inventories

The cost of inventories (including those from discontinued operations) recognized as an expense during the 13 and 26 weeks ended November 2, 2013 was $3,427.4 and $6,989.9 respectively (November 3, 2012 - $3,341.3 and $6,800.6). The Company has recorded $8.7 (November 3, 2012 - $8.7) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at November 2, 2013. There were no reversals of inventories written down previously (November 3, 2012 - $ nil).

5. Assets held for sale

On October 22, 2013 regulatory clearance was obtained from the Competition Bureau for the Asset Purchase Agreement between Sobeys and Safeway Inc. and its subsidiaries. Part of these conditions required the divestment of ten Sobeys stores. The inventory, property and equipment and intangibles related to these stores of $33.2 has been included in assets held for sale as at November 2, 2013.

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

6. Funds held in escrow

Included in funds held in escrow is $1,812.0 of net proceeds from the sale of subscription receipts and $987.1 of net proceeds from the private placement of unsecured notes held in escrow as of November 2, 2013. For further information on the subscription receipts and notes, please see Notes 8 and 9.

7. Investments, at equity

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

		November 2 2013		November 3 2012
Investment in associates				
Crombie Real Estate Investment Trust ("Crombie REIT")	**$**	**195.1**	$	183.7
Canadian real estate partnerships		**143.3**		88.8
U.S. real estate partnerships		**69.3**		45.3
Investment in joint ventures				
Canadian Digital Cinema Partnership ("CDCP")		**9.8**		7.8
Total	**$**	**417.5**	$	325.6

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

		November 2 2013		November 3 2012
Crombie REIT	**$**	**527.1**	$	570.5

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.

8. Subscription receipts payable

On July 31, 2013, in connection with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway ULC (the "Canada Safeway acquisition"), the Company closed its previously announced offering of 21,100,000 subscription receipts at a price of $76.00 per Subscription Receipt. The Underwriters elected to exercise their over-allotment option in full at closing, resulting in a total of 24,265,000 subscription receipts being issued by Empire for gross proceeds of $1,844.1. The proceeds, net of fees paid of $36.8 representing 50 percent of total underwriting fees for the issue with the remainder of fees to be paid if the escrow release conditions are satisfied on or before March 31, 2014, are being held by CST Trust Company, as subscription receipt agent, and are invested in short term interest bearing debt obligations issued by a Canadian chartered bank. These net proceeds are held in escrow pending the satisfaction of the conditions to closing. If the escrow release conditions are satisfied on or before March 31, 2014, each subscription receipt will be exchanged for one Non-Voting Class A share of the Company, and an adjustment payment paid equal to the amount of any cash dividends declared for which the record date falls between the date of the subscription receipt agreement and the date immediately preceding the release date. If the escrow release conditions are not satisfied or if the acquisition is terminated, each subscription receipt holder will receive a payment equal to the full subscription price for each receipt and the pro rata share of interest earned on those receipts. Subscription receipts payable at November 2, 2013 have been reduced by $1.6 representing the excess of the adjustment payment accrued over interest earned on the deposit which is treated as a refund of proceeds. On November 4, 2013, subsequent to the close of the second quarter, the escrow release conditions were satisfied. As a result, the subscription receipts were exchanged for Non-Voting Class A shares and funds of $1,812.0 were released from escrow and used to partially finance the Canada Safeway acquisition. Further information on Sobeys Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in Note 15.

9. Long-term debt

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

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

On August 8, 2013, in connection with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway ULC, Sobeys completed a private placement of $500.0 aggregate principal amount of 3.52 percent Notes, Series 2013-1 due August 8, 2018 (the "Series 2013-1 Notes") and $500.0 aggregate principal amount of 4.70 percent Notes, Series 2013-2 due August 8, 2023 (the "Series 2013-2 Notes" and together with the Series 2013-1 Notes, the "Notes"). The aggregate net proceeds were approximately $987.1 after deducting underwriting fees and the purchase discount on the 2013-1 Notes. These net proceeds were held in escrow pending the satisfaction of the conditions to closing which was reached on November 4, 2013, subsequent to the close of the second quarter. Upon closing, the net proceeds of $987.1 were used to partially finance the Canada Safeway acquisition.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of $450.0, and a $200.0 unsecured non-revolving term credit facility resulting in total authorized credit facilities of $650.0. The revolving term credit facility matures on February 14, 2017, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on the revolving term credit facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate. As of November 2, 2013 Sobeys had issued $82.3 in letters of credit against the revolving term credit facility (May 4, 2013 - $80.6).

By way of agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of $1,825.0; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of $1,327.9; and a revolving term credit facility (the "RT Facility") in the amount of $450.0. The Acquisition Facility matures November 4, 2017. The Bridge Facility matures November 4, 2014 but may be extended per the terms of the credit agreement. The RT Facility matures on November 4, 2017. Interest payable on the facilities fluctuates with changes in the bankers' acceptance rate or Canadian prime rate.

Subsequent to the close of the second quarter, on November 4, 2013, the RT Facility replaced Sobeys' existing unsecured revolving term credit facility of $450.0, the Acquisition Facility was fully drawn for $1,825.0 and the Bridge Facility was drawn for $200.0 in order to partially finance the Canada Safeway acquisition. The total amount of the Bridge Facility was reduced to $200.0 from $1,327.9 following the draw down as per the terms of the credit agreement. Deferred financing fees in the amount of $29.3 were incurred on the draw down of the Acquisition and Bridge Facilities.

Further information on Sobeys' Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in Note 15.

10. Other income

	13 Weeks Ended		26 Weeks Ended	
	November 2 2013	**November 3 2012**	**November 2 2013**	**November 3 2012**
Gain on disposal of assets	**$ 2.8**	$ 10.4	**$ 2.7**	$ 11.8
Dilution gains	**4.4**	-	**4.4**	12.1
Investment income	**0.5**	4.1	**1.3**	4.4
Total	**$ 7.7**	$ 14.5	**$ 8.4**	$ 28.3

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

11. Finance costs, net

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

	13 Weeks Ended		26 Weeks Ended	
	November 2 2013	November 3 2012	**November 2 2013**	November 3 2012
Finance income				
Interest income from cash and cash equivalents	**$ 7.7**	$ 1.1	**$ 8.2**	$ 1.8
Fair value (losses) gains on cash flow hedges	**(0.1)**	-	**(0.1)**	0.1
Gain on disposal of financial assets	**1.2**	-	**1.2**	-
Total finance income	**8.8**	1.1	**9.3**	1.9
Finance costs				
Interest expense on financial liabilities measured at amortized cost	**27.9**	11.7	**41.0**	24.6
Fair value losses on forward contracts	**0.2**	0.4	**0.5**	0.6
Losses on cash flow hedges reclassified from other comprehensive income	**-**	-	**-**	1.6
Net pension finance costs	**1.8**	2.3	**3.7**	4.4
Total finance costs	**29.9**	14.4	**45.2**	31.2
Finance costs, net	**$ 21.1**	$ 13.3	**$ 35.9**	$ 29.3

12. Discontinued operations

During the quarter, Empire Theatres completed its asset sales transactions with two unrelated parties as announced on June 27, 2013. Details of the sale are as follows:

Net proceeds on disposal	**$ 247.3**
Book value of property and equipment sold	**102.5**
Book value of goodwill sold	**32.6**
Book value of intangible assets sold	**0.5**
Write off of property and equipment	**0.4**
Write off of deferred tenant inducements and market lease adjustments	**(14.2)**
Write off of straight line rent	**(4.2)**
Estimated transaction costs	**3.0**
Other costs	**0.6**
	121.2
Gain before income taxes	**126.1**
Income taxes	
Current	**23.6**
Future	**(2.8)**
	20.8
Gain on disposal of assets, net of tax	**$ 105.3**

Certain assets which remain with Empire Theatres have been presented as held for sale.

Assets of disposal groups classified as held for sale:

	November 2 2013
Property and equipment	**$ 5.3**

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

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

	13 Weeks Ended		26 Weeks Ended	
	November 2 2013	**November 3 2012**	**November 2 2013**	**November 3 2012**
Sales	**$ 71.9**	$ 55.3	**$ 126.9**	$ 103.9
Expenses, including finance costs of $0.2 and $0.5 for the 13 and 26 weeks to date (November 3, 2012 - $0.4 and $0.8)	**62.9**	53.2	**116.7**	102.4
Earnings before income taxes of discontinued operations	**9.0**	2.1	**10.2**	1.5
Income taxes	**2.0**	0.5	**2.5**	0.4
Net earnings of discontinued operations	**7.0**	1.6	**7.7**	1.1
Loss recognized on re-measurement of assets of disposal groups to fair value less cost to sell, net of tax of $1.3 and $5.3 for the 13 and 26 weeks to date	**(3.9)**	-	**(16.2)**	-
Gain on disposal of assets, net of tax of $20.8 for the 13 and 26 weeks to date	**105.3**	-	**105.3**	-
Restructuring costs, net of tax of $ nil and $2.0 for the 13 and 26 weeks to date	**0.3**	-	**(5.7)**	-
Net gain from re-measurement and disposal of assets and from restructuring costs	**101.7**	-	**83.4**	-
Net earnings from discontinued operations	**$ 108.7**	$ 1.6	**$ 91.1**	$ 1.1

Cash flows from discontinued operations:

	13 Weeks Ended		26 Weeks Ended	
	November 2 2013	**November 3 2012**	**November 2 2013**	**November 3 2012**
Operating cash flows	**$ 1.0**	$ 6.1	**$ 10.1**	$ 4.5
Investing cash flows	**$ 239.9**	$ (13.4)	**$ 235.5**	$ (15.9)
Financing cash flows	**$ (22.4)**	$ 7.5	**$ (19.9)**	$ 11.8

13. Earnings per share

The weighted average number of outstanding shares for the 13 and 26 weeks ended November 2, 2013 used for basic earnings per share amounted to 67,970,759 and 67,959,635 (November 3, 2012 - 67,948,510) shares.

(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 2 2013	**November 3 2012**	**November 2 2013**	**November 3 2012**
Weighted average number of shares used in basic earnings per share	**67,970,759**	67,948,510	**67,959,635**	67,948,510
Shares deemed to be issued for no consideration in respect of stock-based payments	**191,057**	120,271	**184,193**	107,538
Weighted average number of shares used in diluted earnings per share	**68,161,816**	68,068,781	**68,143,828**	68,056,048

Shares contingently issuable in settlement of the subscriptions receipts payable (Note 8) are not included in the calculation of the weighted average number of shares outstanding for either basic or diluted earnings per share.

14. 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 2 2013	**November 3 2012**	**November 2 2013**	**November 3 2012**
Segmented sales				
Food retailing	**$ 4,431.0**	$ 4,345.4	**$ 9,040.0**	$ 8,855.4
Investments and other operations	**0.8**	6.5	**4.2**	8.5
	4,431.8	4,351.9	**9,044.2**	8,863.9
Sales to discontinued operations	**3.3**	3.1	**6.3**	6.0
Total	**$ 4,428.5**	$ 4,348.8	**$ 9,037.9**	$ 8,857.9

	13 Weeks Ended		26 Weeks Ended	
	November 2 2013	**November 3 2012**	**November 2 2013**	**November 3 2012**
Segmented operating income				
Food retailing	**$ 99.8**	$ 127.5	**$ 226.8**	$ 283.5
Investments and other operations				
Crombie REIT	**5.4**	4.2	**12.1**	9.7
Real estate partnerships	**8.0**	4.6	**11.1**	9.2
Other operations, net of corporate expenses	**(6.8)**	1.9	**(9.7)**	10.8
	6.6	10.7	**13.5**	29.7
Total	**$ 106.4**	$ 138.2	**$ 240.3**	$ 313.2

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

	November 2 2013	November 3 2012
Total assets by segment		
Food retailing	**$ 7,638.1**	$ 6,238.4
Investments and other operations (including discontinued operations)	**2,641.6**	659.0
	$ 10,279.7	$ 6,897.4

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

	13 Weeks Ended		26 Weeks Ended	
	November 2 2013	November 3 2012	November 2 2013	November 3 2012
Total operating income	**$ 106.4**	$ 138.2	**$ 240.3**	$ 313.2
Finance costs, net	**21.1**	13.3	**35.9**	29.3
Total	**$ 85.3**	$ 124.9	**$ 204.4**	$ 283.9

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

15. Business acquisitions

The Company acquired franchise and non-franchise stores, retail gas locations, prescription files 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 and retail gas locations relate to the acquired work force and customer base of the existing store location, along with the synergies expected from combining the efforts of the acquired stores with existing stores.

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

	13 Weeks Ended		26 Weeks Ended	
	November 2 2013	November 3 2012	November 2 2013	November 3 2012
Stores, retail gas locations and theatres				
Inventories	**$ 1.5**	$ 0.6	**$ 2.1**	$ 0.8
Property and equipment	**1.8**	6.2	**7.1**	6.7
Goodwill	**2.6**	5.5	**2.8**	5.6
Provisions	**(0.1)**	-	**(0.3)**	(0.1)
Other liabilities	**0.1**	(1.2)	**0.1**	(1.2)
	5.9	11.1	**11.8**	11.8
Prescription files				
Intangibles	**0.5**	-	**0.5**	-
Cash consideration	**$ 6.4**	$ 11.1	**$ 12.3**	$ 11.8

The businesses acquired contributed sales of $8.2 and $11.4 and earnings of $(0.4) and $(0.4) for the 13 and 26 weeks ended November 2, 2013 respectively.

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

Canada Safeway Acquisition
On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to purchase substantially all of the assets and select liabilities of Canada Safeway ULC for cash purchase price of $5,800.0, subject to a working capital adjustment. The agreement provides for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities. On October 22, 2013, regulatory clearance was obtained from the Competition Bureau which included the required divestiture of 23 Sobeys and Canada Safeway ULC stores. The Sobeys locations required to be divested have been included in assets held for sale as of November 2, 2013. Subsequent to the close of the second quarter, on November 4, 2013 the transaction closed. Empire and Sobeys financed the acquisition with a combination of the following: (i) a $1,844.1, net of fees of $73.8, Empire equity offering which closed on July 31, 2013 as discussed in Note 8; (ii) a $991.3 sale-leaseback of acquired real estate assets, as discussed in Note 17; (iii) $2,025.0 in term credit facilities, as discussed in Note 9; (iv) the issuance of $1,000.0 in unsecured notes by Sobeys, as discussed in Note 9; and (v) available cash on hand. Crombie REIT has a right of first offer in respect of any real estate sales undertaken by Sobeys.

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

Property and equipment	$ 2,300.4
Intangibles	510.0
Other assets and liabilities	(116.6)
Total identifiable net assets	$ 2,693.8
Excess consideration paid over identifiable net assets acquired allocated to goodwill	$ 3,106.2

The fair value of identifiable net assets and goodwill acquired on November 4, 2013 have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Acquisition costs of $16.8 and $26.9 relating to external legal, consulting, due diligence and other closing costs incurred during the 13 and 26 weeks ended November 2, 2013 respectively, have been included in selling and administrative expenses in the condensed consolidated statements of earnings. Subsequent to the close of the second quarter of fiscal 2014, financial advisory fees of $44.0 have been incurred.

16. Financial instruments

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

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

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

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

There were no transfers between classes of the fair value hierarchy during the quarter ended November 2, 2013.

The following table summarizes the classification of the Company's financial instruments, as well as their carrying amounts and fair values.

November 2, 2013	FVTPL	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial Assets						
Cash and cash equivalents	$ -	$ -	$ 792.5	$ -	$ 792.5	$ 792.5
Receivables	-	-	381.8	-	381.8	381.8
Loans and other receivables	-	-	99.6	-	99.6	99.6
Funds held in escrow	-	-	2,799.1	-	2,799.1	2,799.1
Investments	-	24.3	-	-	24.3	24.3
Other assets[1]	6.5	-	-	-	6.5	6.5
Total financial assets	$ 6.5	$ 24.3	$ 4,073.0	$ -	$ 4,103.8	$ 4,103.8
Fair value level 1	$ 6.5	$ 24.3				$ 30.8
Fair value level 2	-	-				-
Fair value level 3	-	-				-
	$ 6.5	$ 24.3				$ 30.8
Financial Liabilities						
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ (1,764.8)	$ (1,764.8)	$ (1,764.8)
Subscription receipts payable	-	-	-	(1,842.5)	(1,842.5)	(1,842.5)
Notes payable	-	-	-	(987.1)	(987.1)	(987.1)
Long-term debt	-	-	-	(1,140.5)	(1,140.5)	(1,190.1)
Total financial liabilities	$ -	$ -	$ -	$ (5,734.9)	$ (5,734.9)	$ (5,784.5)
Fair value level 1	$ -	$ -				$ -
Fair value level 2	-	-				-
Fair value level 3	-	-				-
	$ -	$ -				$ -

[1] *The total carrying value of financial assets included in other assets is $6.5.*

The fair value of financial assets included in other assets, classified as Level 3, are determined based on estimates made using available market interest rates as proxies, as no market data exists for these financial instruments. Management believes that its valuation technique is appropriate. During the quarter ended November 2, 2013, the Company sold its fair value Level 3 assets which included asset-backed commercial paper. The following table summarizes the change in fair value recorded:

	November 2, 2013 (26 Weeks Ended)	May 4, 2013 (52 Weeks Ended)	November 3, 2012 (26 Weeks Ended)
Financial Assets			
Balance, beginning of period	**$ 24.8**	$ 23.8	$ 23.8
Fair value gains, net of losses, recognized in net earnings	**-**	1.0	-
Disposals during the period	**(24.8)**	-	-
Balance, end of period	**$ -**	$ 24.8	$ 23.8

Derivative financial instruments

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

Cash flow hedges
The Company's cash flow hedge consists principally of foreign currency swaps. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Gains and losses are initially recognized directly in equity and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the year.

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

17. Related party transactions

The Company has related party transactions with Crombie REIT. The Company holds a 42.1 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 decreased from 42.7 to 42.1 percent.

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

On 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 26 weeks ended November 3, 2012, the Company sold three properties to Crombie REIT, all of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $50.2, resulting in a pre-tax gain of $5.6 which was recognized in the consolidated statements of earnings.

During the quarter ended November 3, 2012, the Company acquired a parcel of land from an associate 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.

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT has agreed to indirectly acquire 70 properties included in the acquisition of substantially all of the assets of Canada Safeway ULC for $991.3. The sale-leaseback transaction closed on November 4, 2013 immediately following the close of the Canada Safeway acquisition and is subject to customary close adjustments.

On closing of the acquisition of the 70 properties, the Company purchased $150.0 of Class B units (which are convertible on a one-for-one basis into units of Crombie REIT.) Consequently, the Company's interest in Crombie REIT was reduced from 42.1 percent to 41.6 percent

18. 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.

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

19. Employee future benefits

During the second quarter of fiscal 2014, the net employee future benefits expense reported in net earnings was $9.2 (November 3, 2012 - $10.1). For the 26 weeks ended November 2, 2013 it was $18.9 (November 3, 2012 - $20.1). Actuarial gains (losses) before taxes on defined benefit pension plans for the 13 and 26 weeks ended November 2, 2013 were $6.5 and $50.4 respectively (November 3, 2012 - $4.7 and $(12.9)). These gains (losses) have been recognized in other comprehensive income.

20. Stock-based compensation

Deferred stock units

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred stock units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each directors' fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Non-Voting Class A share at the time of redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase or decrease in the DSU obligation as selling and administrative expenses on the condensed consolidated statements of earnings. At November 2, 2013 there were 136,962 (November 3, 2012 - 130,271) DSUs outstanding. During the 13 and 26 weeks ended November 2, 2013, the compensation expense was $(0.2) and $1.6 respectively (November 3, 2012 - $0.6 and $0.7).

Performance share unit plan

Commencing in fiscal 2012, the Company awarded certain employees a target number of performance share units ("PSUs") that track the Company's Non-Voting Class A share prices over a three-year period. The number of PSUs that vest under an award is dependent on time and the achievement of specific performance measures. On the vesting date, each employee is entitled to receive a cash payout amount equal to the number of their vested PSUs multiplied by the market value of the Non-Voting Class A shares. At November 2, 2013, there were 57,690 (November 3, 2012 – 41,461) PSUs outstanding. During the 13 and 26 weeks ended November 2, 2013, the compensation expense was $0.4 and $0.9 respectively (November 3, 2012 - $0.2 and $0.4).

Stock option plan

During the second quarter of fiscal 2014, the Company granted an additional 372,383 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 $11.15 per option (November 3, 2012 - $8.23 per option) was determined using the Black Scholes model with the following weighted average assumptions.

Share price	$82.31
Expected life	5.25 years
Risk-free interest rate	1.70%
Expected volatility (based on recent 5-year history)	15.1%
Dividend yield	1.34%

The compensation cost relating to the 13 and 26 weeks ended November 2, 2013 was $1.2 and $1.3 respectively (November 3, 2012 - $0.1 and 0.3) with amortization of the cost over the vesting period of four years. The total increase in contributed surplus in relation to the stock option compensation cost was $2.6 (November 3, 2012 - $0.3).

21. Subsequent event

Subsequent to the close of the second quarter, on November 4, 2013, Sobeys, through its Asset Purchase Agreement with Safeway Inc. and its subsidiaries, closed the transaction to purchase substantially all of the assets and select liabilities of Canada Safeway ULC for cash purchase price of $5,800.0, subject to a working capital adjustment. The agreement provides for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities.

Please refer to notes 5, 6, 8, 9, 15, and 17 for additional information relating to the acquisition.