# Empire Company Limited
# Interim Condensed Consolidated Financial Statements
# October 31, 2015

**CONTENTS**

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

| | October 31 2015 | May 2 2015 | November 1 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | **$ 304.0** | $ 295.9 | $ 376.5 |
| Receivables | **469.5** | 507.4 | 485.4 |
| Inventories (Note 4) | **1,379.9** | 1,260.6 | 1,383.0 |
| Prepaid expenses | **120.4** | 120.5 | 107.3 |
| Loans and other receivables | **20.1** | 24.8 | 24.5 |
| Income taxes receivable | **19.3** | 18.9 | 29.5 |
| Assets held for sale (Note 5) | **75.4** | 47.8 | 460.0 |
| | **2,388.6** | 2,275.9 | 2,866.2 |
| Loans and other receivables | **106.5** | 88.5 | 76.5 |
| Investments | **24.7** | 25.1 | 24.6 |
| Investments, at equity (Note 6) | **558.9** | 577.8 | 582.0 |
| Other assets | **43.1** | 48.4 | 30.6 |
| Property and equipment | **3,571.3** | 3,500.4 | 3,536.1 |
| Investment property | **93.2** | 104.2 | 106.5 |
| Intangibles | **925.9** | 938.0 | 955.9 |
| Goodwill | **3,826.6** | 3,799.2 | 3,818.7 |
| Deferred tax assets | **74.7** | 110.9 | 138.7 |
| | **$ 11,613.5** | $ 11,468.4 | $ 12,135.8 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | **$ 2,246.2** | $ 2,265.8 | $ 2,288.3 |
| Income taxes payable | **34.8** | 40.9 | 30.0 |
| Provisions (Note 7) | **92.9** | 122.1 | 73.6 |
| Long-term debt due within one year (Note 8) | **346.2** | 53.9 | 19.8 |
| | **2,720.1** | 2,482.7 | 2,411.7 |
| Provisions (Note 7) | **187.5** | 142.9 | 132.1 |
| Long-term debt (Note 8) | **2,117.1** | 2,237.0 | 3,098.8 |
| Other long-term liabilities | **414.4** | 458.0 | 425.0 |
| Deferred tax liabilities | **113.3** | 110.9 | 146.9 |
| | **5,552.4** | 5,431.5 | 6,214.5 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock (Note 9) | **2,045.0** | 2,109.4 | 2,109.4 |
| Contributed surplus | **9.9** | 8.2 | 6.2 |
| Retained earnings | **3,932.3** | 3,859.9 | 3,756.1 |
| Accumulated other comprehensive income | **13.7** | 6.3 | 0.4 |
| | **6,000.9** | 5,983.8 | 5,872.1 |
| Non-controlling interest | **60.2** | 53.1 | 49.2 |
| | **6,061.1** | 6,036.9 | 5,921.3 |
| | **$ 11,613.5** | $ 11,468.4 | $ 12,135.8 |

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

On Behalf of the Board

(signed) *"Rob Dexter"*
Director

(signed) *"Marc Poulin"*
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* | |
|---|---|---|---|---|
| | **October 31 2015** | **November 1 2014** | **October 31 2015** | **November 1 2014** |
| Sales | **$ 6,059.2** | $ 5,995.1 | **$ 12,308.4** | $ 12,217.8 |
| Other (loss) income, net (Note 10) | **(32.8)** | 17.0 | **(17.3)** | 22.1 |
| Share of earnings from investments, at equity | **8.5** | 20.5 | **20.9** | 36.0 |
| Operating expenses | | | | |
| Cost of sales | **4,585.6** | 4,514.4 | **9,318.8** | 9,191.3 |
| Selling and administrative expenses | **1,313.3** | 1,314.5 | **2,661.7** | 2,661.5 |
| Operating income | **136.0** | 203.7 | **331.5** | 423.1 |
| Finance costs, net (Note 11) | **34.3** | 40.5 | **67.2** | 84.1 |
| Earnings before income taxes | **101.7** | 163.2 | **264.3** | 339.0 |
| Income taxes | **30.1** | 41.2 | **73.6** | 85.6 |
| Net earnings | **$ 71.6** | $ 122.0 | **$ 190.7** | $ 253.4 |
| Earnings for the period attributable to: | | | | |
| Non-controlling interest | **$ 3.1** | $ 5.1 | **$ 13.4** | $ 13.4 |
| Owners of the Company | **68.5** | 116.9 | **177.3** | 240.0 |
| | **$ 71.6** | $ 122.0 | **$ 190.7** | $ 253.4 |
| Earnings per share (Note 12) | | | | |
| Basic | **$ 0.25** | $ 0.42 | **$ 0.64** | $ 0.87 |
| Diluted | **$ 0.25** | $ 0.42 | **$ 0.64** | $ 0.87 |
| Weighted average number of common shares outstanding, in millions (Note 12) | | | | |
| Basic | **275.2** | 277.0 | **276.1** | 277.0 |
| Diluted | **275.5** | 277.0 | **276.5** | 277.1 |

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 | | 26 Weeks Ended | |
|---|---|---|---|---|
| | **October 31 2015** | **November 1 2014** | **October 31 2015** | **November 1 2014** |
| Net earnings | **$ 71.6** | $ 122.0 | **$ 190.7** | $ 253.4 |
| Other comprehensive income (loss) | | | | |
| Items that will be reclassified subsequently to net earnings | | | | |
| Unrealized gains (losses) on derivatives designated as cash flow hedges (net of taxes of $(0.2) and $(1.6) (2014 - $0.3 and $0.8)) | **0.5** | (0.8) | **4.2** | (2.1) |
| Reclassification of losses on derivatives designated as cash flow hedges to earnings (net of taxes of $(0.1) and $(0.1) (2014 - $(0.1) and $(0.1))) | **-** | 0.1 | **0.1** | 0.2 |
| Unrealized losses on available for sale financial assets (net of taxes of $0.1 and $0.1 (2014 - $ nil and $ nil)) | **(0.4)** | (0.1) | **(0.3)** | - |
| Share of other comprehensive income of investments, at equity (net of taxes of $(0.1) and $(0.2) (2014 - $(0.2) and $(0.2))) | **0.3** | 0.9 | **0.5** | 1.1 |
| Exchange differences on translation of foreign operations | **3.7** | 2.6 | **2.9** | 0.2 |
| | **4.1** | 2.7 | **7.4** | (0.6) |
| Items that will not be reclassified subsequently to net earnings | | | | |
| Actuarial gains (losses) on defined benefit plans (net of taxes of $(9.3) and $(11.8) (2014 - $(0.2) and $7.2)) | **25.0** | 0.9 | **33.4** | (19.9) |
| Total comprehensive income | **$ 100.7** | $ 125.6 | **$ 231.5** | $ 232.9 |
| Total comprehensive income for the period attributable to: | | | | |
| Non-controlling interest | **$ 3.1** | $ 5.1 | **$ 13.4** | $ 13.4 |
| Owners of the Company | **97.6** | 120.5 | **218.1** | 219.5 |
| | **$ 100.7** | $ 125.6 | **$ 231.5** | $ 232.9 |

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

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

| | Capital Stock | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Earnings | Total Attributable to Owners of the Company | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|
| **Balance at May 3, 2014** | $ 2,108.6 | $ 5.0 | $ 1.0 | $ 3,585.9 | $ 5,700.5 | $ 41.0 | $ 5,741.5 |
| Dividends declared on common shares | - | - | - | (49.9) | (49.9) | - | (49.9) |
| Employee share options | 0.8 | 1.2 | - | - | 2.0 | - | 2.0 |
| Capital transactions with structured entities | - | - | - | - | - | (5.2) | (5.2) |
| Transactions with owners | 0.8 | 1.2 | - | (49.9) | (47.9) | (5.2) | (53.1) |
| Net earnings | - | - | - | 240.0 | 240.0 | 13.4 | 253.4 |
| Other comprehensive loss | - | - | (0.6) | (19.9) | (20.5) | - | (20.5) |
| Total comprehensive income for the period | - | - | (0.6) | 220.1 | 219.5 | 13.4 | 232.9 |
| **Balance at November 1, 2014** | $ 2,109.4 | $ 6.2 | $ 0.4 | $ 3,756.1 | $ 5,872.1 | $ 49.2 | $ 5,921.3 |
| | | | | | | | |
| **Balance at May 2, 2015** | **$ 2,109.4** | **$ 8.2** | **$ 6.3** | **$ 3,859.9** | **$ 5,983.8** | **$ 53.1** | **$ 6,036.9** |
| Dividends declared on common shares | **-** | **-** | **-** | **(55.0)** | **(55.0)** | **-** | **(55.0)** |
| Employee share options | **0.4** | **1.7** | **-** | **-** | **2.1** | **-** | **2.1** |
| Redemption of capital stock (Note 9) | **(64.8)** | **-** | **-** | **(83.3)** | **(148.1)** | **-** | **(148.1)** |
| Capital transactions with structured entities | **-** | **-** | **-** | **-** | **-** | **(6.3)** | **(6.3)** |
| Transactions with owners | **(64.4)** | **1.7** | **-** | **(138.3)** | **(201.0)** | **(6.3)** | **(207.3)** |
| Net earnings | **-** | **-** | **-** | **177.3** | **177.3** | **13.4** | **190.7** |
| Other comprehensive income | **-** | **-** | **7.4** | **33.4** | **40.8** | **-** | **40.8** |
| Total comprehensive income for the period | **-** | **-** | **7.4** | **210.7** | **218.1** | **13.4** | **231.5** |
| **Balance at October 31, 2015** | **$ 2,045.0** | **$ 9.9** | **$ 13.7** | **$ 3,932.3** | **$ 6,000.9** | **$ 60.2** | **$ 6,061.1** |

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

| **Empire Company Limited**<br>**Condensed Consolidated Statements of Cash Flows**<br>**Unaudited (in millions of Canadian dollars)** | *13 Weeks Ended*<br>**October 31 2015** | <br>**November 1 2014** | *26 Weeks Ended*<br>**October 31 2015** | <br>**November 1 2014** |
|---|---|---|---|---|
| **Operations** | | | | |
| Net earnings | **$ 71.6** | $ 122.0 | **$ 190.7** | $ 253.4 |
| Adjustments for: | | | | |
| Depreciation | **97.7** | 99.3 | **194.4** | 200.2 |
| Income taxes | **30.1** | 41.2 | **73.6** | 85.6 |
| Finance costs, net (Note 11) | **34.3** | 40.5 | **67.2** | 84.1 |
| Amortization of intangibles | **22.6** | 20.8 | **44.5** | 43.0 |
| Loss (gain) on disposal of assets | **40.8** | (9.5) | **32.8** | (7.2) |
| Impairment of non-financial assets, net | **(1.5)** | (1.5) | **2.9** | (1.4) |
| Amortization of deferred items | **3.3** | 3.5 | **6.4** | 6.6 |
| Equity in earnings of other entities, net of distributions received | **12.1** | 4.1 | **24.8** | 16.1 |
| Employee future benefits obligation | **1.2** | 1.3 | **2.3** | 2.7 |
| (Decrease) increase in long-term lease obligation | **(1.3)** | 2.6 | **0.6** | 4.2 |
| Decrease in long-term provisions | **(8.4)** | (13.7) | **(1.8)** | (13.7) |
| Stock option plan | **1.3** | 1.3 | **2.4** | 2.0 |
| Net change in non-cash working capital | **(140.1)** | (101.2) | **(134.1)** | (68.4) |
| Income taxes paid, net | **(27.9)** | (29.6) | **(55.1)** | (48.1) |
| Cash flows from operating activities | **135.8** | 181.1 | **451.6** | 559.1 |
| **Investment** | | | | |
| Increase in investments | **(0.4)** | - | **(3.4)** | (40.0) |
| Property, equipment and investment property purchases | **(156.2)** | (86.3) | **(299.1)** | (192.1) |
| Proceeds on disposal of property, equipment and investment property | **4.5** | 45.2 | **48.4** | 165.0 |
| Additions to intangibles | **(11.6)** | (9.0) | **(31.5)** | (16.6) |
| Loans and other receivables | **(7.5)** | (5.7) | **(13.3)** | (2.1) |
| Other assets and other long-term liabilities | **(3.3)** | (0.1) | **7.1** | (3.1) |
| Business acquisitions (Note 14) | **(16.9)** | (5.0) | **(62.4)** | (6.3) |
| Interest received | **0.7** | 0.2 | **1.2** | 0.7 |
| Cash flows used in investing activities | **(190.7)** | (60.7) | **(353.0)** | (94.5) |
| **Financing** | | | | |
| Issue of long-term debt | **242.3** | 15.0 | **270.9** | 363.0 |
| Debt financing costs | **-** | - | **-** | (0.9) |
| Repayment of long-term debt | **(54.3)** | (73.6) | **(106.1)** | (758.0) |
| Interest paid | **(36.2)** | (48.7) | **(45.9)** | (66.4) |
| Repurchase of Non-Voting Class A shares (Note 9) | **(148.1)** | - | **(148.1)** | - |
| Dividends paid, common shares | **(27.3)** | (25.0) | **(55.0)** | (49.9) |
| Non-controlling interest | **(1.5)** | (1.8) | **(6.3)** | (5.2) |
| Cash flows used in financing activities | **(25.1)** | (134.1) | **(90.5)** | (517.4) |
| (Decrease) increase in cash and cash equivalents | **(80.0)** | (13.7) | **8.1** | (52.8) |
| Cash and cash equivalents, beginning of period | **384.0** | 390.2 | **295.9** | 429.3 |
| Cash and cash equivalents, end of period | **$ 304.0** | $ 376.5 | **$ 304.0** | $ 376.5 |

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

## 1. Reporting entity

Empire Company Limited ("Empire" or the "Company") is a Canadian company whose key businesses are food retailing and related real estate. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The unaudited interim condensed consolidated financial statements for the period ended October 31, 2015 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 are accounted for using the equity method. The Company's business operations are conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 13, *Segmented Information*. The Company's food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's first quarter. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

## 2. Basis of preparation

### Statement of compliance

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosures normally included in annual consolidated financial statements have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended May 2, 2015, 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 December 8, 2015.

### Basis of measurement

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

### Use of estimates and judgments

The preparation of the unaudited interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The use of estimates, judgments and assumptions are 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.

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 2, 2015 and remain unchanged for the period ended October 31, 2015 with the following exception:

### Supply agreements

The Company has various long-term supply agreements for products, some of which contain minimum volume purchases. Significant estimation and judgment is required in the determination of (i) future operating results; and (ii) forecasted volumes purchased. When measuring whether a provision is required based on the expected future cash flows associated with fulfilling the contract, management makes assumptions which relate to future events and circumstances. Actual results could vary from these estimated future cash flows.

## 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 2, 2015.

**(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 October 31, 2015 was $4,585.6 and $9,318.8 respectively (November 1, 2014 - $4,514.4 and $9,191.3). The Company has recorded $1.3 (November 1, 2014 - $8.0) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at October 31, 2015. There were no reversals of inventories written down previously (November 1, 2014 - $ nil).

## 5. Assets held for sale

During the first quarter, the Company sold two properties and leased back one from third parties. Total proceeds from the transactions were $34.7, resulting in a gain of $8.9.

As at October 31, 2015, assets of $47.6 have been included in assets held for sale for five properties that were sold subsequent to the quarter. The remainder of the balance relates to manufacturing sites, land, and buildings expected to be sold in the next twelve months.

## 6. Investments, at equity

| | October 31 2015 | November 1 2014 |
|---|---|---|
| **Investment in associates** | | |
| Crombie Real Estate Investment Trust ("Crombie REIT") | **$ 357.7** | $ 369.4 |
| Canadian real estate partnerships | **136.4** | 140.7 |
| U.S. real estate partnerships | **55.4** | 62.2 |
| **Investment in joint ventures** | | |
| Canadian Digital Cinema Partnership ("CDCP") | **9.4** | 9.7 |
| Total | **$ 558.9** | $ 582.0 |

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

| | October 31 2015 | November 1 2014 |
|---|---|---|
| Crombie REIT | **$ 707.5** | $ 708.0 |

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

## 7. Provisions

| October 31, 2015 | Lease Contracts | Legal | Environmental | Restructuring | Sales Price Adjustment | Other | Total |
|---|---|---|---|---|---|---|---|
| Opening balance | $ 21.7 | $ 9.6 | $ 40.4 | $ 190.3 | $ - | $ 3.0 | $ 265.0 |
| Assumed in a business acquisition | - | - | 0.5 | - | - | - | 0.5 |
| Provisions made | 3.3 | 3.3 | 0.3 | 21.5 | 39.7 | - | 68.1 |
| Provisions used | (5.9) | (3.8) | (1.1) | (46.3) | - | (0.1) | (57.2) |
| Provisions reversed | - | (0.2) | - | (1.9) | - | - | (2.1) |
| Change due to discounting | 1.0 | - | 0.7 | 4.4 | - | - | 6.1 |
| Closing balance | $ 20.1 | $ 8.9 | $ 40.8 | $ 168.0 | $ 39.7 | $ 2.9 | $ 280.4 |
| | | | | | | | |
| Current | $ 9.0 | $ 8.9 | $ 2.7 | $ 69.6 | $ - | $ 2.7 | $ 92.9 |
| Non-current | 11.1 | - | 38.1 | 98.4 | 39.7 | 0.2 | 187.5 |
| Total | $ 20.1 | $ 8.9 | $ 40.8 | $ 168.0 | $ 39.7 | $ 2.9 | $ 280.4 |

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

**Sales price adjustment**

The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement, long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this asset purchase agreement, should actual purchases for the calendar year ended 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume-driven formula. Given the operating results experienced in the first half of fiscal 2016, management believes that purchases in calendar 2016 are unlikely to meet the minimum volume requirements and, accordingly, have recorded a provision to reflect the estimated adjustment to the sales price. This provision will continue to be monitored and updated for any changes to estimated calendar 2016 purchase volumes. The actual sales price adjustment could vary significantly from this estimate. Please see Note 10 for further information.

## 8. Long-term debt

During the quarter ended October 31, 2015, $130.0 was drawn on the Company's $250.0 credit facilities. Interest payable fluctuates with changes in the bankers' acceptance rate or Canadian prime rate, and the credit facility matures on November 4, 2017.

During the quarter ended October 31, 2015, $90.0 was drawn and $30.0 repaid on Sobeys' $450.0 revolving term credit facility ("RT Facility"). Interest payable on the RT Facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate, and the RT Facility matures on November 4, 2017.

## 9. Capital stock

**Share split**

On September 28, 2015, the Company effected a three-for-one share split by delivering two additional shares for each share held by Non-Voting Class A and Class B shareholders of record as of the close of business on September 21, 2015. Non-Voting Class A shares commenced trading on a split basis as of September 29, 2015. All number of share and per share amounts have been restated in these unaudited interim condensed consolidated financial statements to reflect the share split.

**Normal course issuer bid**

On March 12, 2015, the Company filed a notice of intent with the Toronto Stock Exchange to purchase for cancellation up to 1,788,584 Non-Voting Class A shares, or 5,365,752 Non-Voting Class A shares post-share split, representing approximately three percent of those outstanding. Purchases may commence on March 17, 2015, and shall terminate not later than March 16, 2016. During the quarter ended October 31, 2015, the Company purchased for cancellation 5,365,752 Non-Voting Class A shares which fulfilled the normal course issuer bid. The purchase price was $148.1 of which $64.8 of the purchase price was accounted for as a reduction to share capital and the remainder as a reduction to retained earnings.

## 10. Other (loss) income, net

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---|---|---|---|
| | **October 31 2015** | **November 1 2014** | **October 31 2015** | **November 1 2014** |
| (Loss) gain on disposal of assets | **$ (39.7)** | $ 9.4 | **$ (31.7)** | $ 7.1 |
| Lease revenue from owned property | **8.0** | 7.5 | **15.5** | 14.9 |
| Dilution (losses) gains | **(1.1)** | 0.1 | **(1.1)** | 0.1 |
| Total | **$ (32.8)** | $ 17.0 | **$ (17.3)** | $ 22.1 |

As discussed in Note 7, management has recognized a loss on sale of $39.7 related to the disposed assets based on its current estimate of the sales price adjustment under the terms of the asset purchase agreement.

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

### 11. Finance costs, net

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---|---|---|---|
| | **October 31 2015** | **November 1 2014** | **October 31 2015** | **November 1 2014** |
| **Finance income** | | | | |
| Interest income from cash and cash equivalents | **$ 0.1** | $ 0.2 | **$ 0.6** | $ 0.7 |
| Investment income | **0.3** | 0.5 | **0.6** | 0.7 |
| Total finance income | **0.4** | 0.7 | **1.2** | 1.4 |
| **Finance costs** | | | | |
| Interest expense on financial liabilities measured at amortized cost | **28.6** | 35.6 | **56.3** | 74.3 |
| Fair value losses (gains) on forward contracts | **0.1** | (0.2) | **(0.2)** | (0.2) |
| Losses on cash flow hedges reclassified from other comprehensive income | **0.1** | 0.2 | **0.2** | 0.3 |
| Net pension finance costs | **3.0** | 3.1 | **6.0** | 6.2 |
| Accretion expense on provisions | **2.9** | 2.5 | **6.1** | 4.9 |
| Total finance costs | **34.7** | 41.2 | **68.4** | 85.5 |
| Finance costs, net | **$ 34.3** | $ 40.5 | **$ 67.2** | $ 84.1 |

### 12. Earnings per share

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---|---|---|---|
| | **October 31 2015** | **November 1 2014** | **October 31 2015** | **November 1 2014** |
| Weighted average number of shares used in basic earnings per share | **275,209,205** | 276,991,683 | **276,111,365** | 276,978,324 |
| Shares deemed to be issued for no consideration in respect of stock-based payments | **308,813** | 11,283 | **381,287** | 84,888 |
| Weighted average number of shares used in diluted earnings per share | **275,518,018** | 277,002,966 | **276,492,652** | 277,063,212 |

### 13. Segmented information

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

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

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

No asymmetrical allocations have been applied between segments.

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

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

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---|---|---|---|
| | **October 31 2015** | **November 1 2014** | **October 31 2015** | **November 1 2014** |
| **Segmented operating income** | | | | |
| Food retailing | **$ 129.3** | $ 181.6 | **$ 313.9** | $ 387.8 |
| Investments and other operations | | | | |
| Crombie REIT | **6.2** | 9.0 | **13.6** | 16.3 |
| Real estate partnerships | **2.2** | 11.4 | **7.1** | 19.4 |
| Other operations, net of corporate expenses | **(1.7)** | 1.7 | **(3.1)** | (0.4) |
| | **6.7** | 22.1 | **17.6** | 35.3 |
| Total | **$ 136.0** | $ 203.7 | **$ 331.5** | $ 423.1 |

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

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---|---|---|---|
| | **October 31 2015** | **November 1 2014** | **October 31 2015** | **November 1 2014** |
| Total operating income | **$ 136.0** | $ 203.7 | **$ 331.5** | $ 423.1 |
| Finance costs, net | **34.3** | 40.5 | **67.2** | 84.1 |
| Total | **$ 101.7** | $ 163.2 | **$ 264.3** | $ 339.0 |

| | **October 31 2015** | **November 1 2014** |
|---|---|---|
| **Total assets by segment** | | |
| Food retailing | **$ 10,952.4** | $ 11,420.7 |
| Investments and other operations | **661.1** | 715.1 |
| Total | **$ 11,613.5** | $ 12,135.8 |

### 14. Business acquisitions

The Company acquires franchise and non-franchise stores, retail gas locations and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the acquisition method. Goodwill recorded on the acquisitions of franchise and non-franchise stores and retail gas locations relate to the acquired work force and customer base of the existing store location, along with the synergies expected from combining the efforts of the acquired stores with existing stores.

The following table represents the amounts of identifiable assets and liabilities from resulting acquisitions for the 26 weeks ended October 31, 2015:

| | |
|---|---|
| **Stores and retail gas locations** | |
| Receivables | **$ 12.1** |
| Inventories | **12.7** |
| Property and equipment | **17.0** |
| Intangibles | **0.9** |
| Goodwill | **26.2** |
| Provisions | **(0.5)** |
| Other liabilities | **(6.0)** |
| Cash consideration | **$ 62.4** |

From the date of acquisition, the businesses acquired contributed sales of $48.5 and $72.4 and net losses of $(1.2) and $(3.2) for the 13 and 26 weeks ended October 31, 2015 respectively.

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

## 15. 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, current portion of loans and other receivables, and accounts payable and accrued liabilities 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 approximate fair values 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 based on current market rates and consistency of credit spread. The fair value of long-term debt has been estimated by discounting future cash flows at a rate offered for borrowings of similar maturities and credit quality.

The fair value of investments, classified as Level 1, is estimated using unadjusted quoted prices in active markets. The fair value of derivative financial assets and liabilities, classified as Level 2, is estimated using valuation models that utilize market based observable inputs. Management believes that its valuation technique is appropriate.

There were no transfers between classes of the fair value hierarchy during the 26 weeks ended October 31, 2015.

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

| **Long-term debt** | **October 31, 2015** | **May 2, 2015** | **November 1, 2014** |
|---|---|---|---|
| Total carrying amount | **$ 2,463.3** | $ 2,290.9 | $ 3,118.6 |
| Total fair value | **$ 2,598.6** | $ 2,484.1 | $ 3,265.2 |

As at October 31, 2015, the fair value hierarchy includes financial assets designated as fair value through profit or loss of $0.3, $1.8, and $ nil for Levels 1, 2 and 3 respectively (May 2, 2015 - $4.4, $0.1, and $ nil, November 1, 2014 - $5.0, $0.5, and $ nil).

As at October 31, 2015, the fair value hierarchy includes financial assets designated as available for sale of $24.7 for Level 1 (May 2, 2015 - $25.1, November 1, 2014 - $24.6).

As at October 31, 2015, the fair value hierarchy includes financial liabilities at fair value through profit or loss of $ nil, $0.7, and $ nil for Levels 1, 2 and 3 respectively (May 2, 2015 - $ nil, $5.5, and $ nil, November 1, 2014 - $ nil, $2.7, and $ nil).

### 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.

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

**Cash flow hedges**

The Company's cash flow hedges consist principally of foreign currency swaps and interest rate swaps. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Interest rate swaps are used to protect against exposure to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates. 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 period.

## 16. Stock-based compensation

**Stock option plan**

During fiscal 2016, the Company granted an additional 736,038 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The number of options, weighted average fair value of options, and share price have been restated to reflect the three-for-one share split (Note 9). The weighted average fair value of $4.35 per option was determined using the Black-Scholes model with the following weighted average assumptions:

| | |
|---|---|
| Share price | $30.25 |
| Expected life | 7.85 years |
| Risk-free interest rate | 1.02% |
| Expected volatility | 15.31% |
| Dividend yield | 1.32% |

The compensation cost relating to the 13 and 26 weeks ended October 31, 2015 was $1.3 and $2.4 respectively (November 1, 2014 - $1.3 and $2.0) 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 $2.4 (November 1, 2014 - $2.0).

## 17. Employee future benefits

During the second quarter of fiscal 2016, the net employee future benefits expense reported in net earnings was $13.7 (November 1, 2014 - $13.8). For the 26 weeks ended October 31, 2015 it was $27.4 (November 1, 2014 - $27.4). Actuarial gains (losses) before taxes on defined benefit pension plans for the 13 and 26 weeks ended October 31, 2015 were $34.3 and $45.2 respectively (November 1, 2014 - $1.1 and (27.1)). These gains (losses) have been recognized in other comprehensive income.

## 18. Subsequent event

Subsequent to the close of the second quarter ended October 31, 2015, Sobeys, through its wholly owned subsidiaries, sold and leased back five properties from Crombie REIT, an entity in which the Company has a 41.5 percent ownership. Cash consideration received for the properties sold was $57.3, resulting in a pre-tax gain of $9.7.