
Empire Company Limited
Interim Condensed Consolidated Financial Statements
October 31, 2020

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 - 13

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

	October 31 2020	May 2 2020	November 2 2019
ASSETS			
Current			
Cash and cash equivalents	\$ 755.6	\$ 1,008.4	\$ 404.3
Receivables	571.7	535.3	479.6
Inventories (Note 4)	1,554.5	1,489.4	1,496.1
Prepaid expenses	106.9	113.1	112.0
Leases and other receivables	94.6	68.4	68.0
Income taxes receivable	36.6	34.8	29.8
Assets held for sale	-	6.1	19.5
	<u>3,119.9</u>	<u>3,255.5</u>	<u>2,609.3</u>
Leases and other receivables	562.2	580.8	575.0
Investments, at equity (Note 5)	583.0	607.5	602.5
Other assets	23.4	28.7	25.8
Property and equipment	2,871.9	2,883.4	2,849.6
Right-of-use assets	4,152.8	4,033.5	3,799.5
Investment property	171.6	114.0	109.6
Intangibles	948.3	968.8	937.7
Goodwill	1,576.5	1,573.7	1,571.3
Deferred tax assets	557.4	587.0	697.4
	<u>\$ 14,567.0</u>	<u>\$ 14,632.9</u>	<u>\$ 13,777.7</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$ 2,734.7	\$ 2,951.9	\$ 2,440.6
Income taxes payable	54.6	23.2	19.9
Provisions	53.0	48.7	74.1
Long-term debt due within one year (Note 6)	245.4	570.0	27.1
Lease liabilities due within one year	468.9	466.2	421.6
	<u>3,556.6</u>	<u>4,060.0</u>	<u>2,983.3</u>
Provisions	45.4	54.7	57.6
Long-term debt (Note 6)	1,095.9	1,105.2	1,725.0
Long-term lease liabilities	4,962.2	4,800.0	4,571.8
Other long-term liabilities	97.2	97.5	108.8
Employee future benefits	314.8	304.1	296.8
Deferred tax liabilities	189.9	197.5	221.9
	<u>10,262.0</u>	<u>10,619.0</u>	<u>9,965.2</u>
SHAREHOLDERS' EQUITY			
Capital stock (Note 7)	2,016.5	2,013.2	2,030.5
Contributed surplus	20.5	23.2	20.2
Retained earnings	2,144.0	1,872.1	1,662.0
Accumulated other comprehensive income	15.5	16.1	13.5
	<u>4,196.5</u>	<u>3,924.6</u>	<u>3,726.2</u>
Non-controlling interest	108.5	89.3	86.3
	<u>4,305.0</u>	<u>4,013.9</u>	<u>3,812.5</u>
	<u>\$ 14,567.0</u>	<u>\$ 14,632.9</u>	<u>\$ 13,777.7</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		26 Weeks Ended	
	October 31	November 2	October 31	November 2
	2020	2019	2020	2019
Sales	\$ 6,975.4	\$ 6,436.5	\$ 14,329.6	\$ 13,180.6
Other income (Note 8)	9.1	11.4	43.4	26.0
Share of earnings from investments, at equity	8.9	30.8	15.7	45.6
Operating expenses				
Cost of sales	5,224.3	4,840.8	10,729.9	9,924.5
Selling and administrative expenses	1,462.6	1,351.5	2,974.7	2,775.2
Operating income	306.5	286.4	684.1	552.5
Finance costs, net (Note 9)	66.1	69.9	136.8	141.6
Earnings before income taxes	240.4	216.5	547.3	410.9
Income tax expense	63.6	56.2	153.7	107.8
Net earnings	\$ 176.8	\$ 160.3	\$ 393.6	\$ 303.1
Earnings for the period attributable to:				
Non-controlling interest	\$ 15.4	\$ 5.7	\$ 40.3	\$ 17.9
Owners of the Company	161.4	154.6	353.3	285.2
	\$ 176.8	\$ 160.3	\$ 393.6	\$ 303.1
Earnings per share (Note 10)				
Basic	\$ 0.60	\$ 0.57	\$ 1.31	\$ 1.05
Diluted	\$ 0.60	\$ 0.57	\$ 1.31	\$ 1.05
Weighted average number of common shares outstanding, in millions (Note 10)				
Basic	269.0	271.3	269.0	271.5
Diluted	270.1	272.4	269.9	272.6

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	November 2	October 31	November 2
	2020	2019	2020	2019
Net earnings	\$ 176.8	\$ 160.3	\$ 393.6	\$ 303.1
Other comprehensive income (loss)				
Items that will be reclassified subsequently to net earnings				
Unrealized (losses) gains on derivatives designated as cash flow hedges (Note 11)	(0.7)	1.0	0.7	(0.7)
Share of other comprehensive income (loss) of investments, at equity (Note 11)	0.1	0.5	(0.1)	0.4
Exchange differences on translation of foreign operations (Note 11)	(0.6)	(0.3)	(1.2)	(0.9)
	(1.2)	1.2	(0.6)	(1.2)
Items that will not be reclassified subsequently to net earnings				
Actuarial gains (losses) on defined benefit plans (Note 11)	6.7	11.6	(9.5)	(10.3)
Total comprehensive income	\$ 182.3	\$ 173.1	\$ 383.5	\$ 291.6
Total comprehensive income for the period attributable to:				
Non-controlling interest	\$ 15.4	\$ 5.7	\$ 40.3	\$ 17.9
Owners of the Company	166.9	167.4	343.2	273.7
	\$ 182.3	\$ 173.1	\$ 383.5	\$ 291.6

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	Contributed	Accumulated	Retained	Total	Non-	Total
	Stock	Surplus	Other	Earnings	Attributable	controlling	Equity
			Comprehensive		to Owners of	Interest	
			Income		the Company		
Balance as at May 5, 2019	\$ 2,042.6	\$ 25.2	\$ 14.7	\$ 1,488.8	\$ 3,571.3	\$ 79.7	\$ 3,651.0
Dividends declared on common shares	-	-	-	(65.1)	(65.1)	-	(65.1)
Equity based compensation, net	3.4	(5.0)	-	-	(1.6)	-	(1.6)
Repurchase of capital stock (Note 7)	(17.6)	-	-	(34.4)	(52.0)	-	(52.0)
Shares held in trust, net	2.1	-	-	-	2.1	-	2.1
Capital transactions with structured entities	-	-	-	-	-	(9.7)	(9.7)
Transactions with owners	(12.1)	(5.0)	-	(99.5)	(116.6)	(9.7)	(126.3)
Net earnings	-	-	-	285.2	285.2	17.9	303.1
Revaluation of put options	-	-	-	(2.2)	(2.2)	(1.6)	(3.8)
Other comprehensive loss	-	-	(1.2)	(10.3)	(11.5)	-	(11.5)
Total comprehensive (loss) income for the period	-	-	(1.2)	272.7	271.5	16.3	287.8
Balance at November 2, 2019	\$ 2,030.5	\$ 20.2	\$ 13.5	\$ 1,662.0	\$ 3,726.2	\$ 86.3	\$ 3,812.5
Balance at May 3, 2020	\$ 2,013.2	\$ 23.2	\$ 16.1	\$ 1,872.1	\$ 3,924.6	\$ 89.3	\$ 4,013.9
Dividends declared on common shares	-	-	-	(70.0)	(70.0)	-	(70.0)
Equity based compensation, net	1.8	(2.7)	-	-	(0.9)	-	(0.9)
Repurchase of capital stock (Note 7)	(0.7)	-	-	(1.4)	(2.1)	-	(2.1)
Shares held in trust, net	2.2	-	-	-	2.2	-	2.2
Capital transactions with structured entities	-	-	-	-	-	(18.6)	(18.6)
Transactions with owners	3.3	(2.7)	-	(71.4)	(70.8)	(18.6)	(89.4)
Net earnings	-	-	-	353.3	353.3	40.3	393.6
Revaluation of put options	-	-	-	(0.5)	(0.5)	(2.5)	(3.0)
Other comprehensive loss	-	-	(0.6)	(9.5)	(10.1)	-	(10.1)
Total comprehensive (loss) income for the period	-	-	(0.6)	343.3	342.7	37.8	380.5
Balance at October 31, 2020	\$ 2,016.5	\$ 20.5	\$ 15.5	\$ 2,144.0	\$ 4,196.5	\$ 108.5	\$ 4,305.0

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		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Operations				
Net earnings	\$ 176.8	\$ 160.3	\$ 393.6	\$ 303.1
Adjustments for:				
Depreciation	187.7	173.1	373.5	347.8
Income tax expense	63.6	56.2	153.7	107.8
Finance costs, net (Note 9)	66.1	69.9	136.8	141.6
Amortization of intangibles	19.2	18.2	38.3	37.4
Net gain on disposal of assets and lease terminations	(3.0)	(7.3)	(34.4)	(17.7)
Impairment expense (reversal) of non-financial assets, net	0.7	(3.4)	1.6	(1.7)
Amortization of deferred items	1.0	0.3	1.5	1.4
Equity in earnings of other entities, net of distributions received	7.7	(15.7)	23.4	(4.2)
Employee future benefits	(1.3)	(0.9)	(2.3)	(3.4)
Decrease in long-term provisions	(7.0)	(6.6)	(10.3)	(14.2)
Equity based compensation	2.4	1.1	4.9	2.6
Net change in non-cash working capital	(97.3)	(118.1)	(263.1)	(160.6)
Income taxes paid, net	(97.8)	(11.1)	(99.0)	(18.6)
Cash flows from operating activities	<u>318.8</u>	<u>316.0</u>	<u>718.2</u>	<u>721.3</u>
Investment				
Property, equipment and investment property purchases	(159.4)	(173.9)	(304.8)	(260.5)
Additions to intangibles	-	(22.1)	-	(26.9)
Proceeds on disposal of assets and lease terminations	16.5	40.6	40.0	80.8
Leases and other receivables, net	(10.0)	2.3	(12.7)	5.2
Other assets and other long-term liabilities	(0.3)	(2.3)	1.8	3.6
Business acquisitions	(5.1)	(1.2)	(8.2)	(4.2)
Payments received for finance subleases	13.4	18.7	33.0	37.3
Interest received	1.8	1.9	3.8	3.9
Cash flows used in investing activities	<u>(143.1)</u>	<u>(136.0)</u>	<u>(247.1)</u>	<u>(160.8)</u>
Financing				
Issuance of long-term debt	17.1	19.0	49.6	45.0
Repayments of long-term debt	(8.2)	(12.9)	(51.5)	(54.0)
Repayments of credit facilities, net	(324.2)	(231.2)	(332.5)	(231.2)
Interest paid	(23.7)	(28.5)	(32.7)	(43.4)
Payments of lease liabilities (principal portion)	(58.4)	(96.7)	(151.2)	(192.0)
Payments of lease liabilities (interest portion)	(55.7)	(53.9)	(114.9)	(107.1)
Repurchase of Non-Voting Class A shares (Note 7)	(2.1)	(33.1)	(2.1)	(52.0)
Dividends paid, common shares	(35.0)	(32.5)	(70.0)	(65.1)
Non-controlling interest	(6.5)	(0.6)	(18.6)	(9.7)
Cash flows used in financing activities	<u>(496.7)</u>	<u>(470.4)</u>	<u>(723.9)</u>	<u>(709.5)</u>
Decrease in cash and cash equivalents	(321.0)	(290.4)	(252.8)	(149.0)
Cash and cash equivalents, beginning of period	<u>1,076.6</u>	<u>694.7</u>	<u>1,008.4</u>	<u>553.3</u>
Cash and cash equivalents, end of period	<u>\$ 755.6</u>	<u>\$ 404.3</u>	<u>\$ 755.6</u>	<u>\$ 404.3</u>

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

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

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, 2020 include the accounts of Empire, all subsidiary companies, including 100% owned Sobeys Inc. (“Sobeys”), and certain enterprises considered structured entities, 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 October 31, 2020, the Company’s business operations were conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 12, *Segmented Information*. The Company’s Food retailing business is affected by seasonality and the timing of holidays. 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 the 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, 2020, 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 9, 2020.

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: certain financial instruments (including derivatives) at fair value through profit and loss 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, judgments and assumptions

The preparation of the unaudited interim condensed consolidated financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported on 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 to the amounts recognized on the unaudited interim condensed consolidated financial statements are summarized in the Company’s annual consolidated financial statements for the year ended May 2, 2020 and remain unchanged for the period ended October 31, 2020.

The novel coronavirus pandemic continued to have a significant impact on the Company. The Company’s financial results show increased sales, driven by increased demand for food retailing product. Additional costs were incurred during the period for safety and sanitization measures. The full economic impact that the pandemic will have on the Company remains uncertain and is dependent on the severity and duration of the virus.

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

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, 2020.

Future Standards

In May 2020, the IASB issued a package of narrow-scope amendments to three standards (IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets") as well as the IASB's Annual Improvements to IFRS Standards 2018 - 2020. These amendments to existing IFRS standards are to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. These amendments are effective for annual periods beginning on or after January 1, 2022. The Company is assessing the potential impact of these narrow-scope amendments.

4. Inventories

The cost of inventories recognized as an expense for the period and year-to-date ended October 31, 2020 was \$5,224.3 and \$10,729.9 respectively (November 2, 2019 - \$4,840.8 and \$9,924.5). The Company recorded an expense for the year-to-date ended October 31, 2020 of \$2.1 (November 2, 2019 - \$2.7) for write-down of inventories below cost to net realizable value for inventories on hand. There were no reversals of inventories written down previously (November 2, 2019 - \$ nil).

5. Investments, at equity

	October 31 2020	November 2 2019
Investment in associates		
Crombie Real Estate Investment Trust ("Crombie REIT")	\$ 484.0	\$ 485.5
Canadian real estate partnerships	82.4	92.6
U.S. real estate partnerships	12.8	17.7
Joint ventures	3.8	6.7
Total	\$ 583.0	\$ 602.5

The fair value of the investment in Crombie REIT, which is based on a published price quoted on the Toronto Stock Exchange ("TSX"), is as follows:

	October 31 2020	November 2 2019
Crombie REIT	\$ 853.1	\$ 1,003.3

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

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

6. Long-term debt

The following table reconciles the changes in cash flows from financing activities for long-term debt:

	13 Weeks Ended		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Opening balance	\$ 1,656.4	\$ 1,976.9	\$ 1,675.2	\$ 1,991.8
Issuance of debt	17.1	19.0	49.6	45.0
Repayments of long-term debt	(8.2)	(12.9)	(51.5)	(54.0)
Repayments of credit facilities, net	(324.2)	(231.2)	(332.5)	(231.2)
Total cash flow used in long-term debt financing activities	(315.3)	(225.1)	(334.4)	(240.2)
Deferred financing costs	0.2	0.3	0.5	0.5
Closing balance	\$ 1,341.3	\$ 1,752.1	\$ 1,341.3	\$ 1,752.1
Current			\$ 245.4	\$ 27.1
Non-current			1,095.9	1,725.0
Total			\$ 1,341.3	\$ 1,752.1

7. Capital stock

On June 27, 2019, the Company filed a notice of intent with the TSX to purchase for cancellation up to 3.5 million Non-Voting Class A shares representing approximately 2.0% of shares outstanding. As of May 2, 2020, the Company purchased for cancellation 2,997,583 Non-Voting Class A shares at an average price of \$33.36. The purchase price was \$100.0 of which \$35.4 of the purchase price was accounted for as a reduction to share capital and the remainder as a reduction to retained earnings.

On June 18, 2020, the Company renewed its normal course issuer bid ("NCIB") by filing a notice of intention with the TSX to purchase for cancellation up to 5.0 million Non-Voting Class A shares representing approximately 3.0% of the Non-Voting Class A shares outstanding. The purchase will be made through the facilities of the TSX and/or any alternative trading systems to the extent they are eligible. The price that Empire will pay for any such shares will be the market price at the time of acquisition. Purchases could commence on July 2, 2020 and shall terminate not later than July 1, 2021.

The following table recognizes activities under the NCIB:

	13 Weeks Ended		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Number of shares	55,500	930,454	55,500	1,477,457
Weighted average price	\$ 37.47	\$ 35.49	\$ 37.47	\$ 35.17
Reduction of share capital	\$ 0.7	\$ 11.0	\$ 0.7	\$ 17.6
Premium charged to retained earnings	1.4	22.1	1.4	34.4
Cash consideration paid	\$ 2.1	\$ 33.1	\$ 2.1	\$ 52.0

In fiscal 2020, the Company entered into an automatic share purchase plan with its designated broker allowing the purchases of Non-Voting Class A shares for cancellation under its normal course issuer bid program during trading black-out periods.

Subsequent to the period ended October 31, 2020 and up to December 8, 2020, the Company purchased for cancellation of 755,317 Non-Voting Class A shares at an average price of \$36.20.

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

8. Other income

	13 Weeks Ended		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Net gain on disposal of assets and lease terminations	\$ 3.0	\$ 7.3	\$ 34.4	\$ 17.7
Lease income from owned property	6.1	4.1	9.0	8.3
Total	\$ 9.1	\$ 11.4	\$ 43.4	\$ 26.0

9. Finance costs, net

	13 Weeks Ended		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Finance income				
Interest income on lease receivables	\$ 6.3	\$ 5.8	\$ 12.4	\$ 11.9
Interest income from cash and cash equivalents	1.8	1.9	3.8	3.9
Fair value gains on forward contracts	1.2	0.7	2.2	1.7
Accretion income on leases and other receivables	0.1	0.1	0.2	0.2
Total finance income	9.4	8.5	18.6	17.7
Finance costs				
Interest expense on lease liabilities	55.7	53.9	114.9	107.1
Interest expense on other financial liabilities at amortized cost	17.4	20.9	35.2	45.4
Pension finance costs, net	2.1	2.2	4.1	4.4
Accretion expense on provisions	0.3	1.4	1.2	2.4
Total finance costs	75.5	78.4	155.4	159.3
Finance costs, net	\$ 66.1	\$ 69.9	\$ 136.8	\$ 141.6

10. Earnings per share

	13 Weeks Ended		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Weighted average number of shares - basic	269,032,980	271,304,760	269,026,416	271,508,967
Shares deemed to be issued for no consideration in respect of stock-based payments	1,037,422	1,142,908	910,399	1,135,632
Weighted average number of shares used in diluted earnings per share	270,070,402	272,447,668	269,936,815	272,644,599

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

11. Income taxes recognized in other comprehensive income

Income tax (benefit) expense recognized in other comprehensive income is as follows:

	13 Weeks Ended		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Unrealized gain (losses) on derivatives designated as cash flow hedges	\$ 0.3	\$ (0.3)	\$ (0.2)	\$ 0.3
Share of other comprehensive (loss) income of investments, at equity	(0.1)	-	0.1	(0.2)
Exchange differences on translation of foreign operations	(0.3)	(0.5)	(0.3)	(0.7)
Actuarial (losses) gains on defined benefit plans	(2.2)	(4.4)	3.5	3.7
Total	\$ (2.3)	\$ (5.2)	\$ 3.1	\$ 3.1

12. Segmented information

The Company's reportable segments are Food retailing and Investments and other operations. The Food retailing segment is comprised of six operating segments: Atlantic, Farm Boy, Lawtons, Ontario, Quebec, and West. 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.

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 on its consolidated financial statements.

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

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		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Segmented operating income				
Food retailing	\$ 299.2	\$ 251.8	\$ 671.1	\$ 506.2
Investments and other operations				
Crombie REIT	6.9	24.3	11.8	37.5
Real estate partnerships	2.6	6.1	5.2	7.3
Other operations, net of corporate expenses	(2.2)	4.2	(4.0)	1.5
	7.3	34.6	13.0	46.3
Total	\$ 306.5	\$ 286.4	\$ 684.1	\$ 552.5

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

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

	13 Weeks Ended		26 Weeks Ended	
	October 31 2020	November 2 2019	October 31 2020	November 2 2019
Total operating income	\$ 306.5	\$ 286.4	\$ 684.1	\$ 552.5
Finance costs, net	66.1	69.9	136.8	141.6
Total	\$ 240.4	\$ 216.5	\$ 547.3	\$ 410.9

	October 31 2020	November 2 2019
Total assets by segment		
Food retailing	\$ 13,897.7	\$ 13,091.9
Investments and other operations	669.3	685.8
Total	\$ 14,567.0	\$ 13,777.7

13. Financial instruments

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

Long-term debt	October 31, 2020	May 2, 2020	November 2, 2019
Total carrying amount	\$ 1,341.3	\$ 1,675.2	\$ 1,752.1
Total fair value	\$ 1,565.3	\$ 1,832.2	\$ 1,868.7

The fair value of the non-controlling interest put liabilities associated with the acquisitions of Farm Boy and Kim Phat is equivalent to the present value of the non-controlling interest buyout price which is based on the future earnings of these entities at a predetermined date. The fair value of these options is classified as Level 3 within the three-level hierarchy of IFRS 13 "Fair value measurement".

14. Stock-based compensation

Performance share unit plan

The Company awards performance share units ("PSUs") to certain employees. The number of PSUs that vest under an award, for the most part, is dependent on service over time and the achievement of certain 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 \$30.58 per PSU issued during the year-to-date ended October 31, 2020 was determined using the Black-Scholes model with the following weighted average assumptions:

Share price	\$31.85
Expected life	2.82 years
Risk-free interest rate	0.31%
Expected volatility	32.13%
Dividend yield	1.46%

At October 31, 2020, there were 289,109 (November 2, 2019 - 202,088) PSUs outstanding. The compensation expense for the period and year-to-date ended October 31, 2020 related to PSUs was \$0.8 and \$1.9 respectively (November 2, 2019 - \$0.3 and \$0.8).

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

Stock option plan

During the year-to-date ended October 31, 2020, the Company granted 912,104 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 \$7.17 per option issued during the year-to-date ended October 31, 2020 was determined using the Black-Scholes model with the following weighted average assumptions:

Share price	\$30.83
Expected life	4.73 years
Risk-free interest rate	0.36%
Expected volatility	31.49%
Dividend yield	1.47%

The compensation expense for the period and year-to-date ended October 31, 2020 related to the issuance of options was \$1.6 and \$3.0 respectively (November 2, 2019 - \$0.8 and \$1.8).

Deferred stock unit plans

Deferred stock units ("DSU") issued to employees under the Executive DSU Plan vest dependent on service over time and the achievement of certain performance measures. At October 31, 2020, there were 1,514,272 (November 2, 2019 - 1,254,628) DSUs outstanding related to this plan and the total carrying amount of the liability was \$40.1 (November 2, 2019 - \$25.5). The compensation expense for the period and year-to-date ended October 31, 2020 related to DSUs was \$6.4 and \$13.8 respectively (November 2, 2019 - \$2.1 and \$9.1).

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 October 31, 2020, there were 336,102 (November 2, 2019 - 269,049) DSUs outstanding and the total carrying amount of the liability was \$12.2 (November 2, 2019 - \$9.3). The compensation expense recorded for the period and year-to-date ended October 31, 2020 was \$1.2 and \$2.8, respectively (November 2, 2019 - \$ nil and \$1.7).

Under both DSU plans, vested DSUs cannot be redeemed until the employee has left the Company or 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.

15. Related party transactions

The Company enters into related party transactions with Crombie REIT including ongoing leases and property management agreements. The Company holds a 41.5% (2020 – 41.5%) ownership interest in Crombie REIT and accounts for its investment using the equity method.

Crombie REIT has instituted a distribution reinvestment plan ("DRIP") whereby Canadian resident REIT unitholders may elect to automatically have their distributions reinvested in additional REIT units. The Company has enrolled in the DRIP to maintain its economic and voting interest in Crombie REIT.

During the period ended August 1, 2020, Sobeys, through a wholly-owned subsidiary, sold and leased back one property to Crombie REIT for cash consideration of \$2.9 resulting in a pre-tax gain of \$ nil.

On May 28, 2019, Crombie REIT announced an agreement to sell an 89% interest in a 15-property portfolio to a third party purchaser which closed on October 7, 2019. Sobeys and Crombie REIT entered into lease amending agreements on properties disposed where Sobeys was a lessee to secure longer contractual terms, as well as additional option terms on the sites. As consideration for these amendments, Crombie REIT agreed to pay an aggregate amount to Sobeys over a period of three years. As of October 31, 2020, Sobeys has accrued a total of \$4.3 in current and long-term receivables related to these amounts.

During the period ended August 3, 2019, Sobeys, through a wholly-owned subsidiary, sold 50% of a property to Crombie REIT for cash consideration of \$9.5 resulting in a pre-tax gain of \$1.5.

Empire Company Limited
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
October 31, 2020
(in millions of Canadian dollars, except share and per share amounts)

16. Employee future benefits

During the period and year-to-date ended October 31, 2020, the net employee future benefits expense reported in net earnings was \$12.5 and \$25.3 respectively (November 2, 2019 - \$12.5 and \$25.1). Actuarial gains (losses) before taxes on defined benefit pension plans for the period and year-to-date ended October 31, 2020 were \$8.9 and \$(13.0) respectively (November 2, 2019 - \$16.0 and \$(14.0)). These gains (losses) have been recognized in other comprehensive income.

17. Subsequent event

On November 6, 2020, Sobeys fully repaid the remaining \$200.0 on an unsecured non-revolving credit facility scheduled to mature on December 10, 2020.