Empire Company Limited
Interim Condensed Consolidated Financial Statements
August 3, 2019

CONTENTS

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

	August 3 2019	May 4 2019	August 4 2018
ASSETS			
Current			
Cash and cash equivalents	**$ 694.7**	$ 553.3	$ 678.4
Receivables	**467.6**	444.2	424.9
Inventories (Note 4)	**1,413.7**	1,441.8	1,329.9
Prepaid expenses	**124.6**	134.1	153.0
Loans and other receivables (Note 16)	**71.2**	18.7	28.5
Income taxes receivable	**32.1**	27.9	19.0
Assets held for sale	**19.5**	19.5	19.5
	2,823.4	2,639.5	2,653.2
Loans and other receivables (Note 16)	**575.5**	70.8	73.3
Investments, at equity (Note 5)	**578.9**	589.4	570.8
Other assets	**24.3**	43.4	33.8
Property and equipment	**2,849.7**	2,911.5	2,763.3
Right-of-use assets (Note 16)	**3,756.9**	-	-
Investment property	**109.9**	100.0	94.9
Intangibles	**926.1**	1,062.0	834.3
Goodwill	**1,571.3**	1,571.5	1,028.6
Deferred tax assets	**742.4**	614.3	694.0
	$ 13,958.4	$ 9,602.4	$ 8,746.2
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 2,511.0**	$ 2,496.4	$ 2,309.1
Income taxes payable	**32.9**	29.0	39.0
Provisions (Note 6)	**94.0**	119.4	116.9
Long-term debt due within one year (Note 7)	**29.5**	36.5	527.1
Lease liabilities due within one year (Note 16)	**461.6**	-	-
	3,129.0	2,681.3	2,992.1
Provisions (Note 6)	**62.8**	93.1	120.5
Long-term debt (Note 7)	**1,947.4**	1,984.4	1,118.3
Long-term lease liabilities (Note 16)	**4,482.8**	-	-
Other long-term liabilities	**111.6**	269.0	175.8
Employee future benefits	**313.6**	286.1	340.2
Deferred tax liabilities	**205.9**	205.5	126.0
	10,253.1	5,519.4	4,872.9
SHAREHOLDERS' EQUITY			
Capital stock (Note 8)	**2,039.2**	2,042.6	2,042.0
Contributed surplus	**23.1**	25.2	21.0
Retained earnings (Note 16)	**1,548.6**	1,920.8	1,700.2
Accumulated other comprehensive income	**12.3**	14.7	13.2
	3,623.2	4,003.3	3,776.4
Non-controlling interest	**82.1**	79.7	96.9
	3,705.3	4,083.0	3,873.3
	$ 13,958.4	$ 9,602.4	$ 8,746.2

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	
	August 3 2019	**August 4 2018**
Sales	**$ 6,744.1**	$ 6,460.3
Other income (Note 9)	**14.6**	15.3
Share of earnings from investments, at equity	**14.8**	23.1
Operating expenses		
Cost of sales	**5,083.7**	4,948.0
Selling and administrative expenses	**1,423.7**	1,376.0
Operating income	**266.1**	174.7
Finance costs, net (Note 10 and 16)	**71.7**	23.1
Earnings before income taxes	**194.4**	151.6
Income tax expense	**51.6**	41.5
Net earnings	**$ 142.8**	$ 110.1
Earnings for the period attributable to:		
Non-controlling interest	**$ 12.2**	$ 14.5
Owners of the Company	**130.6**	95.6
	$ 142.8	$ 110.1
Earnings per share (Note 11)		
Basic	**$ 0.48**	$ 0.35
Diluted	**$ 0.48**	$ 0.35
Weighted average number of common shares outstanding, in millions (Note 11)		
Basic	**271.8**	271.8
Diluted	**272.9**	272.3

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	
	August 3 2019	**August 4 2018**
Net earnings	**$ 142.8**	$ 110.1
Other comprehensive (loss) income		
Items that will be reclassified subsequently to net earnings		
Unrealized losses on derivatives designated as cash flow hedges (net of taxes of $0.6 (2018 - $ nil))	**(1.7)**	-
Share of other comprehensive (loss) income of investments, at equity (net of taxes of $(0.2) (2018 - $(0.1)))	**(0.1)**	0.3
Exchange differences on translation of foreign operations (net of taxes of $(0.2) (2018 - $ nil))	**(0.6)**	0.4
	(2.4)	0.7
Items that will not be reclassified subsequently to net earnings		
Actuarial (losses) gains on defined benefit plans (net of taxes of $8.1 (2018 - $(5.9)))	**(21.9)**	15.7
Total comprehensive income	**$ 118.5**	$ 126.5
Total comprehensive income for the period attributable to:		
Non-controlling interest	**$ 12.2**	$ 14.5
Owners of the Company	**106.3**	112.0
	$ 118.5	$ 126.5

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 5, 2018	$ 2,039.5	$ 22.9	$ 12.5	$ 1,627.9	$ 3,702.8	$ 67.0	$ 3,769.8
Dividends declared on common shares	-	-	-	(29.9)	(29.9)	-	(29.9)
Equity based compensation, net	1.7	(1.9)	-	-	(0.2)	-	(0.2)
Shares held in trust, net	0.8	-	-	-	0.8	-	0.8
Capital transactions with structured entities	-	-	-	-	-	(3.0)	(3.0)
Non-controlling interest recognized on business acquisitions	-	-	-	(9.1)	(9.1)	18.4	9.3
Transactions with owners	2.5	(1.9)	-	(39.0)	(38.4)	15.4	(23.0)
Net earnings	-	-	-	95.6	95.6	14.5	110.1
Other comprehensive income	-	-	0.7	15.7	16.4	-	16.4
Total comprehensive income for the period	-	-	0.7	111.3	112.0	14.5	126.5
Balance at August 4, 2018	$ 2,042.0	$ 21.0	$ 13.2	$ 1,700.2	$ 3,776.4	$ 96.9	$ 3,873.3
Balance at May 4, 2019	**$ 2,042.6**	**$ 25.2**	**$ 14.7**	**$ 1,920.8**	**$ 4,003.3**	**$ 79.7**	**$ 4,083.0**
IFRS 16 transition adjustment (Note 16)	**-**	**-**	**-**	**(432.0)**	**(432.0)**	**-**	**(432.0)**
Restated 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	**-**	**-**	**-**	**(32.6)**	**(32.6)**	**-**	**(32.6)**
Equity based compensation, net	**2.0**	**(2.1)**	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Repurchase of capital stock (Note 8)	**(6.6)**	**-**	**-**	**(12.3)**	**(18.9)**	**-**	**(18.9)**
Shares held in trust, net	**1.2**	**-**	**-**	**-**	**1.2**	**-**	**1.2**
Capital transactions with structured entities	**-**	**-**	**-**	**-**	**-**	**(9.1)**	**(9.1)**
Transactions with owners	**(3.4)**	**(2.1)**	**-**	**(44.9)**	**(50.4)**	**(9.1)**	**(59.5)**
Net earnings	**-**	**-**	**-**	**130.6**	**130.6**	**12.2**	**142.8**
Revaluation of put options	**-**	**-**	**-**	**(4.0)**	**(4.0)**	**(0.7)**	**(4.7)**
Other comprehensive loss	**-**	**-**	**(2.4)**	**(21.9)**	**(24.3)**	**-**	**(24.3)**
Total comprehensive income for the period	**-**	**-**	**(2.4)**	**104.7**	**102.3**	**11.5**	**113.8**
Balance at August 3, 2019	**$ 2,039.2**	**$ 23.1**	**$ 12.3**	**$ 1,548.6**	**$ 3,623.2**	**$ 82.1**	**$ 3,705.3**

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 August 3 2019	13 Weeks Ended August 4 2018
Operations		
Net earnings	**$ 142.8**	$ 110.1
Adjustments for:		
Depreciation	**174.7**	82.7
Income tax expense	**51.6**	41.5
Finance costs, net (Note 10)	**71.7**	23.1
Amortization of intangibles	**19.2**	21.3
Net gain on disposal of assets	**(10.4)**	(11.0)
Impairment expense (reversal) of non-financial assets, net	**1.7**	(17.5)
Amortization of deferred items	**1.1**	0.9
Equity in earnings of other entities, net of distributions received	**11.5**	1.2
Employee future benefits	**(2.5)**	0.7
Increase in long-term lease obligation	**-**	1.9
Decrease in long-term provisions	**(7.6)**	(10.7)
Equity based compensation, net	**1.5**	1.5
Net change in non-cash working capital	**(42.5)**	(66.3)
Income taxes paid, net	**(7.5)**	(22.7)
Cash flows from operating activities	**405.3**	156.7
Investment		
Property, equipment and investment property purchases	**(86.6)**	(42.8)
Additions to intangibles	**(4.8)**	(4.8)
Proceeds on disposal of assets	**40.2**	18.4
Loans and other receivables	**2.9**	(0.3)
Other assets and other long-term liabilities	**5.9**	4.2
Business acquisitions	**(3.0)**	(19.8)
Payments received for finance subleases	**18.6**	-
Interest received	**2.0**	1.7
Cash flows used in investing activities	**(24.8)**	(43.4)
Financing		
Issue of long-term debt	**26.0**	22.5
Repayment of long-term debt and credit facilities	**(41.1)**	(44.6)
Interest paid	**(14.9)**	(7.8)
Payments of lease liabilities (principal portion)	**(95.3)**	-
Payments of lease liabilities (interest portion)	**(53.2)**	-
Repurchase of Non-Voting Class A shares (Note 8)	**(18.9)**	-
Dividends paid, common shares	**(32.6)**	(29.9)
Non-controlling interest	**(9.1)**	(3.0)
Cash flows used in financing activities	**(239.1)**	(62.8)
Increase in cash and cash equivalents	**141.4**	50.5
Cash and cash equivalents, beginning of period	**553.3**	627.9
Cash and cash equivalents, end of period	**$ 694.7**	$ 678.4

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 August 3, 2019 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 August 3, 2019, 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 4, 2019, 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 September 11, 2019.

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 ("FVTPL") 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 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 4, 2019 and remain unchanged for the period ended August 3, 2019, with the exception of estimates and judgements relating to the adoption of IFRS 16 including the measurement of lease liabilities, right-of-use assets, discount rates and lease terms used. See Note 3(a) for additional details.

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 4, 2019, with the exception of the following:

Changes to accounting standards adopted during fiscal 2020

(a) Leases
Effective May 5, 2019, the Company adopted IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17, "Leases" ("IAS 17") and related interpretations.

IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases except for short-term and low-value asset leases. Lessors continue to classify leases as operating or finance leases. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for all leases where the Company is a lessee. The Company transitioned to IFRS 16 using the modified retrospective approach with the cumulative impact of initially applying the new standard recognized in retained earnings on May 5, 2019. Prior period comparatives have not been restated. The implementation of IFRS 16 had no impact on earnings per share in the quarter. The Company has recognized taxable and deductible temporary differences arising on the transition to IFRS 16. This has resulted in the recognition of a net deferred tax asset as a result of the balances recognized on transition as at May 5, 2019 included in the transition impacts disclosed in Note 16.

The Company has applied the following practical expedients, as permitted by IFRS 16:

- applying a single discount rate to a portfolio of leases with similar characteristics;
- relying on previous assessment of whether a lease is onerous;
- accounting for leases which end within 12 months of the date of initial application as short-term leases;
- excluding initial direct costs from the measurement of the right-of-use asset; and
- using hindsight, (for example, in determining the lease term where the contract includes extension or termination options)

Transition impacts related to IFRS 16 adoption are outlined in Note 16.

As a result of adoption of IFRS 16 the Company has amended its accounting policies related to leases as follows:

The Company as a lessee
The Company recognizes a right-of-use asset and corresponding lease liability at the commencement date. The commencement date is the date in which the lessor makes the asset available for use by the Company. Lease payments for short-term leases or variable payments that do not depend on an index or a rate are recognized in selling, general and administrative expenses.

Lease liabilities reflect the present value of fixed lease payments and variable lease payments that are based on an index or a rate or subject to fair market renewal amounts expected to be payable by the lessee over the lease term. Lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. Where applicable, lease liabilities will include the purchase option exercise price if the Company is reasonably certain to exercise that option, termination penalties if the lease term also reflects the termination option and amounts expected to be payable under a residual value guarantee. Subsequent to initial measurement the Company measures lease liabilities on an amortized cost basis. Lease liabilities are remeasured when there is a modification to the lease. Lease payments are discounted using the interest rate implicit in the lease, or if that rate cannot be determined, the lessee's incremental borrowing rate at the lease inception date. Interest expense is recognized in net finance expense.

Right-of-use assets are measured at the initial amount of the lease liabilities plus any initial direct costs, lease payments made at or before the commencement date less lease incentives received and restoration costs. Subsequent to initial measurement, the Company applies the cost model to the right-of-use assets. Right-of-use assets are measured at cost less accumulated depreciation, accumulated impairment losses and any remeasurements of lease liabilities. The assets are depreciated on a straight-line basis over the shorter of the asset useful life and lease term. Depreciation begins at the commencement date of the lease.

The Company as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. For subleases, where the Company acts as an intermediate lessor, the Company assesses classification with reference to the right-of-use asset arising from the head lease.

For finance subleases the Company derecognizes the corresponding right-of-use asset and records a net investment in the finance sublease and related interest income is recognized in net finance costs.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

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

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. A sale and leaseback is recognized as a sale when the control of the asset has been transferred to the purchaser. The Company will measure the right-of-use asset arising from the leaseback and the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the Company. Any profit or loss in a sale and leaseback transaction related to the transfer of rights of the asset to the buyer-lessor is recognized immediately.

(b) Uncertainty over income tax treatments

Effective during the quarter ended August 3, 2019, the Company adopted IFRIC 23 "Uncertainty over income tax treatments" to clarify how to apply the recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty related to tax treatments. These amendments are effective for annual periods beginning on or after January 1, 2019. This adoption did not have a material impact on the Company's unaudited interim condensed consolidated financial statements.

4. Inventories

The cost of inventories recognized as an expense during the quarter ended August 3, 2019 was $5,083.7 (August 4, 2018 - $4,948.0). The Company recorded an expense of $2.9 (August 4, 2018 - $1.3) for the write-down of inventories below cost to net realizable value for inventories on hand. There were no reversals of inventories written down previously (August 4, 2018 - $ nil).

5. Investments, at equity

	August 3 2019	August 4 2018
Investment in associates		
Crombie Real Estate Investment Trust ("Crombie REIT")	**$ 467.3**	$ 456.0
Canadian real estate partnerships	**88.2**	82.8
U.S. real estate partnerships	**15.8**	22.5
Joint ventures	**7.6**	9.5
Total	**$ 578.9**	$ 570.8

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

	August 3 2019	August 4 2018
Crombie REIT	**$ 981.7**	$ 834.0

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

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

6. Provisions

August 3, 2019	Lease Contracts	Legal	Environmental	Restructuring	Total
Opening balance	$ 19.2	$ 7.1	$ 42.4	$ 143.8	$ 212.5
Reclassification due to IFRS 16 (Note 16)	(7.1)	-	-	(24.0)	(31.1)
Opening balance after reclassification	$ 12.1	$ 7.1	$ 42.4	$ 119.8	$ 181.4
Provisions made	4.4	1.9	-	23.9	30.2
Provisions used	(1.7)	(1.2)	(0.3)	(50.5)	(53.7)
Provisions reversed	(0.3)	(0.7)	(0.4)	(0.7)	(2.1)
Change due to discounting	(0.1)	-	0.3	0.8	1.0
Closing balance	$ 14.4	$ 7.1	$ 42.0	$ 93.3	$ 156.8
Current	$ 10.1	$ 7.1	$ 1.7	$ 75.1	$ 94.0
Non-current	4.3	-	40.3	18.2	62.8
Total	$ 14.4	$ 7.1	$ 42.0	$ 93.3	$ 156.8

7. Long-term debt

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

	13 Weeks Ended	
	August 3 2019	**August 4 2018**
Opening balance	**$ 2,020.9**	$ 1,666.9
Reclassification due to IFRS 16 (Note 16)	**(29.1)**	-
Opening balance after reclassification	**$ 1,991.8**	$ 1,666.9
Issuance of debt	**26.0**	22.5
Acquired through business acquisitions	**-**	0.1
Repayments of long-term debt and credit facility	**(41.1)**	(44.6)
Total cash flow used in long-term debt financing activities	**(15.1)**	(22.0)
Deferred financing costs	**0.2**	0.5
Closing balance	**$ 1,976.9**	$ 1,645.4

8. Capital stock

On June 27, 2019, the Company filed a notice of intent with the Toronto Stock Exchange to purchase for cancellation up to 3.5 million Non-Voting Class A shares representing approximately two percent of shares outstanding. Purchases commenced on July 2, 2019 and shall terminate not later than July 1, 2020. During the first quarter of fiscal 2020, the Company purchased for cancellation 547,300 Non-Voting Class A shares. The purchase price was $18.9 of which $6.6 of the purchase price was accounted for as a reduction to share capital and the remainder as a reduction to retained earnings.

9. Other income

	13 Weeks Ended	
	August 3 2019	**August 4 2018**
Net gain on disposal of assets	**$ 10.4**	$ 11.0
Lease income from owned property	**4.2**	4.3
Total	**$ 14.6**	$ 15.3

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

10. Finance costs, net

	13 Weeks Ended	
	August 3 2019	**August 4 2018**
Finance income		
Interest income from cash and cash equivalents	**$ 2.0**	$ 1.7
Fair value gains on forward contracts	**1.0**	1.0
Interest income on lease receivables	**6.1**	-
Accretion income on loans and other receivables	**0.1**	0.2
Total finance income	**9.2**	2.9
Finance costs		
Interest expense on financial liabilities measured at amortized cost	**24.5**	21.1
Interest expense on lease liabilities	**53.2**	-
Net pension finance costs	**2.2**	3.0
Accretion expense on provisions	**1.0**	1.9
Total finance costs	**80.9**	26.0
Finance costs, net	**$ 71.7**	$ 23.1

11. Earnings per share

	13 Weeks Ended	
	August 3 2019	**August 4 2018**
Weighted average number of shares - basic	**271,795,980**	271,788,634
Shares deemed to be issued for no consideration in respect of stock-based payments	**1,075,244**	529,278
Weighted average number of shares used in diluted earnings per share	**272,871,224**	272,317,912

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: Sobeys West, Sobeys Ontario, Sobeys Quebec, Sobeys Atlantic, Lawtons, and Farm Boy. 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.

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

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

	13 Weeks Ended	
	August 3 2019	**August 4 2018**
Segmented operating income		
Food retailing	**$ 254.4**	$ 152.4
Investments and other operations		
Crombie REIT	**13.2**	20.3
Real estate partnerships	**1.2**	2.6
Other operations, net of corporate expenses	**(2.7)**	(0.6)
	11.7	22.3
Total	**$ 266.1**	$ 174.7

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

	13 Weeks Ended	
	August 3 2019	**August 4 2018**
Total operating income	**$ 266.1**	$ 174.7
Finance costs, net	**71.7**	23.1
Total	**$ 194.4**	$ 151.6

	August 3 2019	**August 4 2018**
Total assets by segment		
Food retailing	**$ 13,292.4**	$ 8,093.2
Investments and other operations	**666.0**	653.0
Total	**$ 13,958.4**	$ 8,746.2

13. Business acquisitions

During the quarter ended August 3, 2019, the Company finalized the purchase price allocation for Kim Phat, a Quebec based ethnic retailer acquired on July 19, 2018. No adjustments were made to the amounts disclosed in the audited consolidated financial statements for the fiscal year ended May 4, 2019. The Company has also made no further adjustments to the Farm Boy purchase price allocation disclosed in the audited consolidated financial statements for the fiscal year ended May 4, 2019. The Farm Boy purchase price allocation has been determined provisionally and is subject to change pending the finalization of the valuations and related accounting. The Farm Boy purchase price allocation is expected to be finalized by the end of the third quarter of fiscal 2020.

14. Financial instruments

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

Long-term debt	**August 3, 2019**	**May 4, 2019**	**August 4, 2018**
Total carrying amount	**$ 1,976.9**	$ 2,020.9	$ 1,645.4
Total fair value	**$ 2,104.6**	$ 2,086.8	$ 1,723.8

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 initial and subsequent fair value measurement of the put liability is classified as Level 3 within the three-level hierarchy of IFRS 13 "Fair value measurement". Subsequent remeasurement will be recorded through retained earnings.

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

15. 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 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 $28.69 per PSU issued during the quarter ended August 3, 2019 was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$30.04
Expected life	2.86 years
Risk-free interest rate	1.47%
Expected volatility	21.31%
Dividend yield	1.60%

At August 3, 2019, there were 308,050 (August 4, 2018 - 328,975) PSUs outstanding. The compensation expense for the quarter ended August 3, 2019 related to PSUs was $0.5 (August 4, 2018 - $0.7).

Stock option plan

During the quarter ended August 3, 2019, the Company granted 1,699,670 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 $6.81 per option issued during the period was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$31.33
Expected life	8.04 years
Risk-free interest rate	1.40%
Expected volatility	22.45%
Dividend yield	1.53%

The compensation expense for the quarter ended August 3, 2019 related to the issuance of options was $1.0 (August 4, 2018 - $0.8).

Deferred stock unit plans

Deferred stock units ("DSU") issued to employees, under the Executive DSU Plan, vest dependent on time and the achievement of certain performance measures. At August 3, 2019 there were 1,350,877 (August 4, 2018 - 1,114,664) DSUs outstanding related to this plan and the total carrying amount of the liability was $25.9 (August 4, 2018 - $10.2). The compensation expense for the quarter ended August 3, 2019 related to DSUs was $7.0 (August 4, 2018 - $2.9).

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 August 3, 2019 there were 257,726 (August 4, 2018 - 212,557) DSUs outstanding and the total carrying amount of the liability was $9.2 (August 4, 2018 - $5.6). The compensation expense recorded for the quarter ended August 3, 2019 was $1.7 (August 4, 2018 - $0.6).

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.

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

16. Transition to IFRS 16

The following tables summarize the adjustments to opening balances resulting from the initial adoption of IFRS 16:

		May 5, 2019
Assets - increase (decrease)		
Current		
Prepaid expenses	**$**	(43.4)
Loans and other receivables		53.6
Current assets		10.2
Loans and other receivables		519.0
Other assets		(7.3)
Property and equipment		(22.3)
Right-of-use assets		3,800.7
Intangibles		(126.7)
Deferred tax assets		127.3
Non-current assets		4,290.7
	$	**4,300.9**

		May 5, 2019
Liabilities - (increase) decrease		
Current		
Provisions	**$**	7.4
Long-term debt due within one year		6.5
Lease liabilities due within one year		(424.4)
Current liabilities		(410.5)
Provisions		23.7
Long-term debt		22.6
Long-term lease liabilities		(4,569.6)
Other long-term liabilities		164.4
Deferred tax liabilities		36.5
Non-current liabilities		(4,322.4)
Shareholders' equity - decrease		
Retained earnings		432.0
	$	**(4,300.9)**

The Company used its incremental borrowing rate as at May 5, 2019, to measure lease liabilities. The weighted average incremental borrowing rate is 4.3%. The weighted average lease term remaining as at May 5, 2019 is 13 years.

The following reconciliation is between lease liabilities recognized on May 5, 2019, and operating lease commitments disclosed under IAS 17 as at May 4, 2019, discounted using the weighted average incremental borrowing rate as at the date of initial application:

Operating lease commitments as at May 4, 2019	$	5,837.8
Historical lease payment net of onerous contract provisions recognized		31.1
Historical finance lease liabilities recognized		29.1
Adjustments as a result of change in lease term assumptions for sites with historical off market leases (net)		237.2
Adjustments as a result of change in lease term assumptions		253.4
Effect of discounting using the lessee's incremental borrowing rate		(1,394.6)
Lease liabilities recognized as at May 5, 2019	**$**	**4,994.0**

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

During the quarter ended August 3, 2019, changes in right-of-use assets are as follows:

Opening value as at May 5, 2019	$	3,800.7
Additions		42.4
Depreciation		(86.2)
Closing Balance as at August 3, 2019	**$**	**3,756.9**

Substantially all right-of-use assets are property related, pertaining to the use of land and buildings.

Net finance costs includes $53.2 finance expense related to lease liabilities and $6.1 finance income related to finance subleases.

During the quarter ended August 3, 2019, the Company completed two sale and leaseback transactions to third parties which resulted in a right-of-use adjustment of $2.9.

17. Related party transactions

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

During the quarter ended August 3, 2019, Sobeys, through a wholly-owned subsidiary, sold 50% of a property to Crombie REIT for cash consideration of $9.5. This resulted in a pre-tax gain of $1.5, which has been recognized in other income on the unaudited interim condensed consolidated statements of earnings.

18. Employee future benefits

During the quarter ended August 3, 2019, the net employee future benefits expense reported in net earnings was $12.6 (August 4, 2018 - $13.3). Actuarial (losses) gains before taxes on defined benefit pension plans for the quarter ended August 3, 2019 were $(30.0) (August 4, 2018 - $21.6). These (losses) gains have been recognized in other comprehensive income.