Empire Company Limited
Interim Condensed Consolidated Financial Statements
July 31, 2021

CONTENTS

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

	July 31 2021	May 1 2021	August 1 2020
ASSETS			
Current			
Cash and cash equivalents	**$ 505.1**	$ 890.5	$ 1,076.6
Receivables	**532.9**	547.0	534.3
Inventories (Note 4)	**1,573.6**	1,500.1	1,492.9
Prepaid expenses	**132.0**	101.0	134.7
Leases and other receivables	**91.4**	91.0	71.4
Income taxes receivable	**67.3**	60.5	28.6
Assets held for sale	**3.4**	3.4	-
	2,905.7	3,193.5	3,338.5
Leases and other receivables	**551.0**	544.2	599.7
Investments, at equity (Note 5)	**584.0**	570.1	590.9
Other assets	**24.2**	22.3	26.7
Property and equipment	**3,075.0**	2,977.6	2,869.9
Right-of-use assets	**4,886.4**	4,678.9	4,140.6
Investment property	**153.2**	158.6	113.2
Intangibles	**1,233.7**	976.0	982.9
Goodwill (Note 13)	**2,028.7**	1,577.8	1,576.3
Deferred tax assets	**480.7**	474.9	561.6
	$ 15,922.6	$ 15,173.9	$ 14,800.3
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**$ 2,810.7**	$ 2,874.1	$ 2,783.5
Income taxes payable	**34.3**	22.1	80.8
Provisions	**47.5**	55.0	65.6
Long-term debt due within one year (Note 6)	**101.1**	46.5	569.2
Lease liabilities due within one year	**560.6**	490.5	425.4
	3,554.2	3,488.2	3,924.5
Provisions	**45.6**	46.5	52.1
Long-term debt (Note 6)	**1,127.0**	1,178.8	1,087.2
Long-term lease liabilities	**5,607.6**	5,417.6	4,956.6
Other long-term liabilities (Note 13)	**354.3**	100.1	96.8
Employee future benefits	**261.9**	254.0	324.9
Deferred tax liabilities	**255.0**	190.7	191.8
	11,205.6	10,675.9	10,633.9
SHAREHOLDERS' EQUITY			
Capital stock (Note 7)	**2,060.8**	1,969.8	2,015.6
Contributed surplus	**26.5**	25.2	20.0
Retained earnings	**2,484.7**	2,363.1	2,013.4
Accumulated other comprehensive income	**15.5**	14.6	16.7
	4,587.5	4,372.7	4,065.7
Non-controlling interest (Note 13)	**129.5**	125.3	100.7
	4,717.0	4,498.0	4,166.4
	$ 15,922.6	$ 15,173.9	$ 14,800.3

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	
	July 31 2021	**August 1 2020**
Sales	**$ 7,626.0**	$ 7,354.2
Other income (Note 8)	**19.0**	34.3
Share of earnings from investments, at equity	**13.3**	6.8
Operating expenses		
Cost of sales	**5,713.8**	5,505.6
Selling and administrative expenses	**1,597.1**	1,512.1
Operating income	**347.4**	377.6
Finance costs, net (Note 9)	**66.8**	70.7
Earnings before income taxes	**280.6**	306.9
Income tax expense	**68.7**	90.1
Net earnings	**$ 211.9**	$ 216.8
Earnings for the period attributable to:		
Non-controlling interest	**$ 23.4**	$ 24.9
Owners of the Company	**188.5**	191.9
	$ 211.9	$ 216.8
Earnings per share (Note 10)		
Basic	**$ 0.71**	$ 0.71
Diluted	**$ 0.70**	$ 0.71
Weighted average number of common shares outstanding, in millions (Note 10)		
Basic	**267.0**	269.0
Diluted	**268.1**	269.8

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*** **July 31** **2021**	 **August 1** **2020**
Net earnings	**$ 211.9**	$ 216.8
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net earnings		
Unrealized gains on derivatives designated as cash flow hedges (Note 11)	**1.0**	1.4
Share of other comprehensive income (loss) of investments, at equity (Note 11)	**0.1**	(0.2)
Exchange differences on translation of foreign operations (Note 11)	**(0.2)**	(0.6)
	0.9	0.6
Items that will not be reclassified subsequently to net earnings		
Actuarial losses on defined benefit plans (Note 11)	**(9.1)**	(16.2)
Total comprehensive income	**$ 203.7**	$ 201.2
Total comprehensive income for the period attributable to:		
Non-controlling interest	**$ 23.4**	$ 24.9
Owners of the Company	**180.3**	176.3
	$ 203.7	$ 201.2

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, 2020	$ 2,013.2	$ 23.2	$ 16.1	$ 1,872.1	$ 3,924.6	$ 89.3	$ 4,013.9
Dividends declared on common shares	-	-	-	(35.0)	(35.0)	-	(35.0)
Equity based compensation, net	0.7	(3.2)	-	-	(2.5)	-	(2.5)
Shares held in trust, net	1.7	-	-	-	1.7	-	1.7
Capital transactions with structured entities	-	-	-	-	-	(12.1)	(12.1)
Transactions with owners	2.4	(3.2)	-	(35.0)	(35.8)	(12.1)	(47.9)
Net earnings	-	-	-	191.9	191.9	24.9	216.8
Revaluation of put options	-	-	-	0.6	0.6	(1.4)	(0.8)
Other comprehensive income (loss)	-	-	0.6	(16.2)	(15.6)	-	(15.6)
Total comprehensive income for the period	-	-	0.6	176.3	176.9	23.5	200.4
Balance at August 1, 2020	$ 2,015.6	$ 20.0	$ 16.7	$ 2,013.4	$ 4,065.7	$ 100.7	$ 4,166.4
Balance at May 1, 2021	**$ 1,969.8**	**$ 25.2**	**$ 14.6**	**$ 2,363.1**	**$ 4,372.7**	**$ 125.3**	**$ 4,498.0**
Issuance of common shares (Note 13)	**129.6**	**-**	**-**	**-**	**129.6**	**-**	**129.6**
Dividends declared on common shares	**-**	**-**	**-**	**(39.9)**	**(39.9)**	**-**	**(39.9)**
Equity based compensation, net	**0.9**	**1.3**	**-**	**-**	**2.2**	**-**	**2.2**
Repurchase of common shares (Note 7)	**(39.5)**	**-**	**-**	**(90.5)**	**(130.0)**	**-**	**(130.0)**
Capital transactions with structured entities	**-**	**-**	**-**	**-**	**-**	**(14.9)**	**(14.9)**
Non-controlling interest recognized on business acquisition (Note 13)	**-**	**-**	**-**	**84.0**	**84.0**	**-**	**84.0**
Transactions with owners	**91.0**	**1.3**	**-**	**(46.4)**	**45.9**	**(14.9)**	**31.0**
Net earnings	**-**	**-**	**-**	**188.5**	**188.5**	**23.4**	**211.9**
Revaluation of put options	**-**	**-**	**-**	**(11.4)**	**(11.4)**	**(4.3)**	**(15.7)**
Other comprehensive income (loss)	**-**	**-**	**0.9**	**(9.1)**	**(8.2)**	**-**	**(8.2)**
Total comprehensive income (loss) for the period	**-**	**-**	**0.9**	**168.0**	**168.9**	**19.1**	**188.0**
Balance at July 31, 2021	**$ 2,060.8**	**$ 26.5**	**$ 15.5**	**$ 2,484.7**	**$ 4,587.5**	**$ 129.5**	**$ 4,717.0**

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*** **July 31** **2021**	 **August 1** **2020**
Operations		
Net earnings	**$ 211.9**	$ 216.8
Adjustments for:		
Depreciation	**213.5**	185.8
Income tax expense	**68.7**	90.1
Finance costs, net (Note 9)	**66.8**	70.7
Amortization of intangibles	**21.0**	19.1
Net gain on disposal of assets and lease terminations	**(13.8)**	(31.4)
Impairment of non-financial assets, net	**1.7**	0.9
Amortization of deferred items	**0.6**	0.5
Equity in earnings of other entities, net of distributions received	**27.3**	15.7
Employee future benefits	**(4.0)**	(1.0)
Increase (decrease) in long-term provisions	**1.8**	(3.3)
Equity based compensation	**2.1**	2.5
Net change in non-cash working capital	**(113.3)**	(165.8)
Income taxes paid, net	**(59.7)**	(1.2)
Cash flows from operating activities	**424.6**	399.4
Investment		
Increase in investments (Note 16)	**(41.5)**	-
Property, equipment and investment property purchases	**(198.9)**	(145.4)
Additions to intangibles	**(16.1)**	-
Proceeds on disposal of assets and lease terminations	**10.4**	23.5
Leases and other receivables, net	**(8.5)**	(2.7)
Other assets and other long-term liabilities	**(25.8)**	2.1
Business acquisitions (Note 13)	**(202.4)**	(3.1)
Payments received for finance subleases	**12.9**	19.6
Interest received	**0.7**	2.0
Cash flows used in investing activities	**(469.2)**	(104.0)
Financing		
Issuance of long-term debt	**44.7**	32.5
Repayments of long-term debt	**(54.8)**	(43.3)
Repayments on credit facilities, net	**(21.7)**	(8.3)
Interest paid	**(6.9)**	(9.0)
Payments of lease liabilities (principal portion)	**(60.9)**	(92.8)
Payments of lease liabilities (interest portion)	**(56.5)**	(59.2)
Repurchase of common shares (Note 7)	**(130.0)**	-
Dividends paid, common shares	**(39.9)**	(35.0)
Non-controlling interest	**(14.8)**	(12.1)
Cash flows used in financing activities	**(340.8)**	(227.2)
(Decrease) increase in cash and cash equivalents	**(385.4)**	68.2
Cash and cash equivalents, beginning of period	**890.5**	1,008.4
Cash and cash equivalents, end of period	**$ 505.1**	$ 1,076.6

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 July 31, 2021 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 July 31, 2021, 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 1, 2021, 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 8, 2021.

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 on 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 1, 2021 and remain unchanged for the period ended July 31, 2021.

Since the fourth quarter of fiscal 2020, the novel coronavirus pandemic has had a significant impact on the Company. With the pandemic related restrictions decreasing, the Company's financial results show fluctuations in sales as compared to the high level of sales last year. Sales still compare favourably to pre-pandemic levels. While the pandemic related restrictions have eased, it is uncertain whether the Company will face further restrictive measures due to future waves of infection. The full economic impact the pandemic will have on the Company, including the long-term shopping patterns of customers, remains uncertain and is dependent on the duration of the virus and related public health measures.

(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 1, 2021.

Standards, amendments and interpretations issued but not yet adopted

In May 2021, the IASB issued amendments to IAS 12, "Income Taxes". The amendments require deferred tax assets and liabilities to be recognized for transactions that result in both deductible and taxable temporary differences of the same amount at initial recognition. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the potential impact of these targeted amendments.

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.

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current (Amendments to IAS 1, "Presentation of Financial Statements"). The narrow-scope amendment affects only the presentation of liabilities in the statement of financial position and not the amount or timing of recognition. Specifically, it clarifies:

- the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least 12 months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- that "settlement" refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

These amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the potential impact of this narrow-scope amendment.

4. Inventories

The cost of inventories recognized as an expense during the period ended July 31, 2021 was $5,713.8 (August 1, 2020 - $5,505.6). The Company recorded an expense during the period ended July 31, 2021 of $2.0 (August 1, 2020 - $1.9) for the write-down of inventories below cost to net realizable value for inventories on hand.

5. Investments, at equity

		July 31 2021		**August 1 2020**
Investment in associates and joint ventures				
Crombie Real Estate Investment Trust ("Crombie REIT")	**$**	**505.6**	$	491.4
Canadian real estate partnerships		**74.1**		81.6
United States ("U.S.") real estate partnerships		**2.1**		13.6
Joint ventures		**2.2**		4.3
Total	**$**	**584.0**	$	590.9

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:

		July 31 2021		**August 1 2020**
Crombie REIT	**$**	**1,250.9**	$	856.1

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.

(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	
	July 31 2021	**August 1 2020**
Opening balance	**$ 1,225.3**	$ 1,675.2
Issuance of debt	**44.7**	32.5
Acquired through business acquisitions	**34.3**	-
Repayments of long-term debt	**(54.8)**	(43.3)
Repayments on credit facilities, net	**(21.7)**	(8.3)
Total cash flow from (used in) long-term debt financing activities	**2.5**	(19.1)
Deferred financing costs	**0.3**	0.3
Closing balance	**$ 1,228.1**	$ 1,656.4
Current	**$ 101.1**	$ 569.2
Non-current	**1,127.0**	1,087.2
Total	**$ 1,228.1**	$ 1,656.4

7. Capital stock

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 5,000,000 Non-Voting Class A shares representing approximately 3.0% of the Non-Voting Class A shares outstanding. The NCIB was amended on April 19, 2021 to purchase up to 8,548,551 Non-Voting Class A shares, representing approximately 5.0% of the shares outstanding, and expired on July 1, 2021.

On June 22, 2021, the Company renewed its NCIB by filing a notice of intention with the TSX to purchase for cancellation up to 8,468,408 Non-Voting Class A shares representing 5.0% of the 169,368,174 Non-Voting Class A shares outstanding as of June 18, 2021. The purchases 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, 2021 and shall terminate not later than July 1, 2022.

The following table reflects shares repurchased under the NCIB:

	13 Weeks Ended	
	July 31 2021	**August 1 2020**
Number of shares	**3,271,082**	-
Weighted average price	**$ 39.74**	$ -
Reduction of share capital	**$ 39.5**	$ -
Premium charged to retained earnings	**90.5**	-
Cash consideration paid	**$ 130.0**	$ -

The Company engages in 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 July 31, 2021, the Company purchased for cancellation 78,200 Non-Voting Class A shares at a weighted average price of $40.23 for a total consideration of $3.1.

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

The Company's issued and outstanding shares are as follows:

	Number of Shares	13 Weeks Ended July 31 2021		13 Weeks Ended August 1 2020	
Balance, beginning of period, Non-Voting Class A shares	**167,323,301**	**$**	**1,963.4**	$	2,009.1
Repurchase of common shares	**(3,271,082)**		**(39.5)**		-
Issuance on business acquisition	**3,187,348**		**129.6**		-
Issuance for stock-based compensation	**76,338**		**0.9**		0.7
Balance, end of period, Non-Voting Class A shares	**167,315,905**	**$**	**2,054.4**	$	2,009.8
Class B common shares, without par value	**98,138,079**	**$**	**7.3**	$	7.3
Shares held in trust	**(46,576)**		**(0.9)**		(1.5)
Total capital stock		**$**	**2,060.8**	$	2,015.6

8. Other income

	13 Weeks Ended July 31 2021		13 Weeks Ended August 1 2020	
Net gain on disposal of assets and lease terminations	**$**	**13.8**	$	31.4
Lease income from owned property		**5.2**		2.9
Total	**$**	**19.0**	$	34.3

9. Finance costs, net

	13 Weeks Ended July 31 2021		13 Weeks Ended August 1 2020	
Finance income				
Interest income on lease receivables	**$**	**5.5**	$	6.1
Fair value gains on forward contracts		**1.1**		1.0
Interest income from cash and cash equivalents		**0.7**		2.0
Accretion income on leases and other receivables		**0.1**		0.1
Total finance income		**7.4**		9.2
Finance costs				
Interest expense on lease liabilities		**56.5**		59.2
Interest expense on other financial liabilities at amortized cost		**15.0**		17.8
Pension finance costs, net		**1.9**		2.0
Accretion expense on provisions		**0.8**		0.9
Total finance costs		**74.2**		79.9
Finance costs, net	**$**	**66.8**	$	70.7

10. Earnings per share

	13 Weeks Ended July 31 2021	13 Weeks Ended August 1 2020
Weighted average number of shares - basic	**266,979,966**	269,020,563
Shares deemed to be issued for no consideration in respect of stock-based payments	**1,128,375**	796,462
Weighted average number of shares - diluted	**268,108,341**	269,817,025

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

11. Income taxes recognized in other comprehensive income

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

	13 Weeks Ended	
	July 31 2021	**August 1 2020**
Unrealized gains on derivatives designated as cash flow hedges	**$ (0.4)**	$ (0.5)
Share of other comprehensive income (loss) of investments, at equity	**(0.1)**	0.2
Exchange differences on translation of foreign operations	**0.1**	-
Actuarial losses on defined benefit plans	**2.8**	5.7
Total	**$ 2.4**	$ 5.4

12. Segmented information

The Company's reportable segments are Food retailing and Investments and other operations. The Food retailing segment is comprised of seven operating segments: Atlantic; Farm Boy; Lawtons; Longo's; 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, 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	
	July 31 2021	**August 1 2020**
Segmented operating income		
Food retailing	**$ 337.3**	$ 371.9
Investments and other operations		
Crombie REIT	**7.4**	4.9
Real estate partnerships	**5.9**	2.6
Other operations, net of corporate expenses	**(3.2)**	(1.8)
	10.1	5.7
Total	**$ 347.4**	$ 377.6

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

	13 Weeks Ended	
	July 31 2021	**August 1 2020**
Total operating income	**$ 347.4**	$ 377.6
Finance costs, net	**66.8**	70.7
Total	**$ 280.6**	$ 306.9

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

		July 31 2021		August 1 2020
Total assets by segment				
Food retailing	**$**	**15,250.5**	$	14,115.1
Investments and other operations		**672.1**		685.2
Total	**$**	**15,922.6**	$	14,800.3

13. Business acquisitions

Longo's Acquisition

On March 16, 2021, the Company, through a wholly-owned subsidiary, signed an agreement to acquire 51% of the business of Longo's, a long-standing, family-built network of specialty grocery stores in the Greater Toronto Area, and the Grocery Gateway e-commerce business. The purchase price was based on a total enterprise value of $700.0, subject to customary closing adjustments. The Company financed the transaction through the issuance of 3,187,348 Non-Voting Class A shares with a fair value transaction price of $129.6, cash of $196.6 and a contingent note payable of $10.7. The acquisition closed effective May 10, 2021.

The preliminary estimated fair value of identifiable assets acquired, liabilities assumed and non-controlling interest as at May 10, 2021 are as follows:

Assumed cash	$	0.6
Receivables		10.8
Inventories		47.3
Prepaid expenses		7.1
Income tax receivable		0.2
Property and equipment		71.9
Right-of-use assets		262.4
Intangibles		261.3
Goodwill		450.4
Accounts payable and accrued liabilities		(73.4)
Lease liabilities		(262.4)
Long-term debt		(34.3)
Other assets and liabilities		(23.7)
Deferred tax liability		(57.6)
Non-controlling interest		(323.7)
Total consideration	$	336.9

These amounts have been determined provisionally and are subject to adjustment pending the finalization of valuations and related accounting.

From the date of acquisition, Longo's contributed sales of $244.2 and net earnings of $3.1 for the 13 weeks ended July 31, 2021.

Goodwill of $450.4 was recognized as the excess of the acquisition cost over the fair value of net identifiable assets at the date of acquisition. The goodwill recognized is attributable mainly to the workforce acquired and expected customer base of the acquired retail store locations and e-commerce business. The goodwill recognized is not expected to be deductible for tax purposes. Intangibles of $261.3 are related to the fair value of the Longo's brand name, loyalty program and software.

After the fifth anniversary of the transaction, the Longo's 49% non-controlling shareholders have an option to sell up to a 12.25% per annum interest in Longo's to Sobeys, at a multiple applied to the last 12 months earnings before interest, taxes, depreciation and amortization, that will vary depending on achievement of certain business results. If Longo's shareholders exercise an option to sell, Sobeys will have a corresponding call option for the same percentage in the following year. After the tenth anniversary of the transaction, both Sobeys and Longo's have mutual put and call options for any remaining minority shares outstanding.

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

A financial liability of $239.7 has been recognized at the date of acquisition based on the present value of the amount payable on exercise of the non-controlling interest put liability in accordance with IFRS 9, “Financial Instruments”. The non-controlling interest put liability is calculated based on the amount payable upon exercise based on management’s best estimate of future earnings of Longo’s 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” (“IFRS 13”) and is included in other long-term liabilities. Subsequent revaluations and any gains or losses from future revaluations will be recorded through retained earnings.

<u>Acquisition of franchise and non-franchise stores</u>

During the period ended July 31, 2021, the Company completed the acquisition of several franchise and non-franchise stores. The results of these acquisitions have been included in the financial results of the Company since their acquisition dates and were accounted for through the use of the acquisition method.

The following table represents the amounts of identifiable assets and liabilities resulting from these acquisitions for the 13 weeks ended July 31, 2021:

	13 Weeks Ended	
	July 31 2021	**August 1 2020**
Inventories	**$ 1.5**	$ 0.4
Property, equipment and investment property	**4.0**	0.2
Goodwill	**0.5**	2.5
Accounts payable and accrued liabilities	**(0.4)**	-
Total consideration	**$ 5.6**	$ 3.1

From the date of acquisition, the businesses acquired contributed sales of $5.3 and net loss of $(0.7) for the 13 weeks ended July 31, 2021 (August 1, 2020 - $ nil and $ nil).

Goodwill recorded on the acquisitions of franchise and non-franchise stores 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 estimated fair value of identifiable net assets and goodwill acquired have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

14. Financial instruments

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

Long-term debt	**July 31 2021**	**May 1 2021**	**August 1 2020**
Total carrying amount	**$ 1,228.1**	$ 1,225.3	$ 1,656.4
Total fair value	**$ 1,432.6**	$ 1,406.7	$ 1,818.2

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 estimated future earnings of these entities at a predetermined date. The fair value of the non-controlling interest put liability associated with the acquisition of Longo’s was determined through a Monte Carlo simulation, which is based on the estimated future earnings of Longo’s at a predetermined date. The fair value of these options is classified as Level 3 within the three-level hierarchy of IFRS 13.

(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 specific performance measures. Upon vesting, each employee is entitled to receive Non-Voting Class A shares equal to the number of their vested PSUs. During the period ended July 31, 2021, the Company granted 264,050 PSUs (August 1, 2020 - 196,557). The weighted average fair value of $37.69 per PSU issued during the period ended July 31, 2021 was determined using the Black-Scholes model with the following weighted average assumptions:

Share price	$39.12
Expected life	2.85 years
Risk-free interest rate	0.58%
Expected volatility	31.30%
Dividend yield	1.31%

At July 31, 2021, there were 607,862 (August 1, 2020 - 302,382) PSUs outstanding. The compensation expense for the period ended July 31, 2021 related to PSUs was $0.4 (August 1, 2020 - $1.1).

Stock option plan

During the period ended July 31, 2021, the Company granted 585,268 (August 1, 2020 - 909,694) 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 $10.09 per option issued during the period ended July 31, 2021 was determined using the Black-Scholes model with the following weighted average assumptions:

Share price	$42.13
Expected life	4.70 years
Risk-free interest rate	0.91%
Expected volatility	30.80%
Dividend yield	1.31%

The compensation expense for the period ended July 31, 2021 related to the issuance of options was $1.7 (August 1, 2020 - $1.4).

Deferred stock unit plans

Deferred stock units ("DSUs") issued to employees, under the Executive DSU Plan, vest dependent on time and the achievement of specific performance measures. During the period ended July 31, 2021, the Company granted 87,474 DSUs (August 1, 2020 - 200,585). At July 31, 2021, there were 1,796,009 (August 1, 2020 - 1,518,775) DSUs outstanding and the total carrying amount of the liability was $61.4 (August 1, 2020 - $35.8). The compensation expense for the period ended July 31, 2021 related to DSUs was $4.5 (August 1, 2020 - $7.4).

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. During the period ended July 31, 2021, the Company granted 12,255 DSUs (August 1, 2020 - 14,095). At July 31, 2021, there were 378,167 (August 1, 2020 - 321,693) DSUs outstanding and the total carrying amount of the liability was $15.5 (August 1, 2020 - $11.1). During the period ended July 31, 2021, the compensation expense recorded was $1.4 (August 1, 2020 - $1.6).

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.

16. Related party transactions

The Company enters into related party transactions with Crombie REIT and key management personnel, including ongoing leases and property management agreements. The Company holds a 41.5% (2021 - 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 July 31, 2021, Sobeys, through a wholly-owned subsidiary, sold and leased back a property to Crombie REIT for cash consideration of $4.7 resulting in a pre-tax gain of $0.3.

During the period ended July 31, 2021, Sobeys, through wholly-owned subsidiaries, engaged in lease modification termination transactions with Crombie REIT. These transactions resulted in pre-tax other income of $11.6 (August 1, 2020 - $ nil) and have been recognized within other income on the unaudited interim condensed consolidated statements of earnings.

On May 19, 2021, Crombie REIT announced it had closed a bought-deal public offering of units at a price of $16.60 per unit for aggregate proceeds of $100.0. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 of Class B Limited Partnership units to maintain a 41.5% interest in Crombie REIT.

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

17. Employee future benefits

During the period ended July 31, 2021, the net employee future benefits expense reported in net earnings was $12.8 (August 1, 2020 - $12.8). Actuarial losses before taxes on defined benefit pension plans for the period ended July 31, 2021 were $(11.9) (August 1, 2020 - $(21.9)). These losses have been recognized in other comprehensive income.