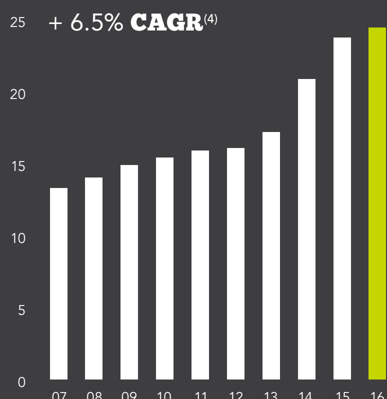
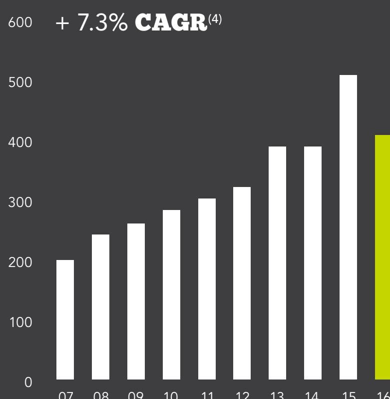
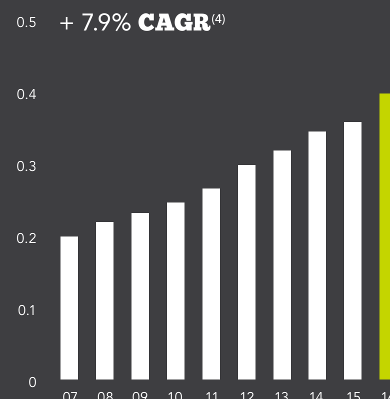
Better food for all.
EMPIRE
COMPANY LIMITED
2016 ANNUAL REPORT

2016 Financial Highlights

($ in millions, except per share amounts)	53 weeks ended May 7, 2016	52 weeks ended May 2, 2015[1]	52 weeks ended May 3, 2014[1]
Sales	**$ 24,618.8**	$ 23,928.8	$ 20,957.8
EBITDA [2]	**(1,944.7)**	1,224.9	753.5
Adjusted EBITDA [2]	**1,161.4**	1,321.9	1,052.8
Operating (loss) income	**(2,418.5)**	742.4	326.7
Net (loss) earnings from continuing operations [3]	**(2,131.0)**	419.0	151.0
per share (fully diluted)	**(7.78)**	1.51	0.63
Net (loss) earnings [3]	**(2,131.0)**	419.0	235.4
per share (fully diluted)	**(7.78)**	1.51	0.98
Adjusted net earnings from continuing operations [2][3]	**410.2**	511.0	390.6
per share (fully diluted)	**1.50**	1.84	1.63
Book value per share	**13.33**	21.60	20.59
Dividends per share	**0.40**	0.36	0.35







(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of the Management's Discussion and Analysis ("MD&A").
(3) Net of non-controlling interest.
(4) Compound annual growth rate.

About forward-looking statements
This document includes statements about our objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities.

These statements are *forward-looking* because they are based on management's expectations about the future – they are not historical facts. Forward-looking statements usually include words like *anticipates, expects, believes, estimates, could, intends, may, plans, predicts, projects, will, would, foresees* and other similar expressions, or the negative of these words.

For more information and a caution about using forward-looking information, see *Forward-Looking Information* on page 26.

About non-GAAP measures
Certain financial measures in this document are not defined terms under GAAP, so they are not a reliable way to compare us to other companies. *See Non-GAAP Financial Measures & Financial Metrics* on page 60 for more information.

Building a stronger platform for growth

As Canada's largest full service food retailer, backed by 109 years of food retailing experience and a food culture that extends across the entire organization, Empire has a long-term strategy that works. Fiscal 2016 was a difficult year for our company, but we are confident in the direction we are taking and remain focused on delivering long-term value to our shareholders.

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PROUDLY CANADIAN WITH 109 YEARS IN FOOD RETAILING

We meet the food shopping needs of Canadians from coast to coast.

BY THE **numbers**

1,800+
LOCATIONS*

38.6M
TOTAL SQ. FOOTAGE

900+
COMMUNITIES

125,000
PEOPLE

*includes more than 350 retail fuel locations

Food

Canada's largest full service food retailer

- $24.6 billion in annual sales
- more than 1,500 stores in 10 provinces

Pharmacy

One of Canada's leading pharmacy retailers

- 348 in-store pharmacies
- 78 Lawtons Drug Stores

Liquor

Building our position as a liquor retailer

- 80 locations
- 3 banners

Fuel

Expanding the relationship between food and fuel

- more than 350 retail fuel locations
- 3 banners

Wholesale

Canada's largest food wholesaler

- 8,000 accounts, including retail stores and convenience stores coast to coast

Real estate

Owning and developing real estate

- strong real estate development team
- 41.5% equity interest in Crombie REIT

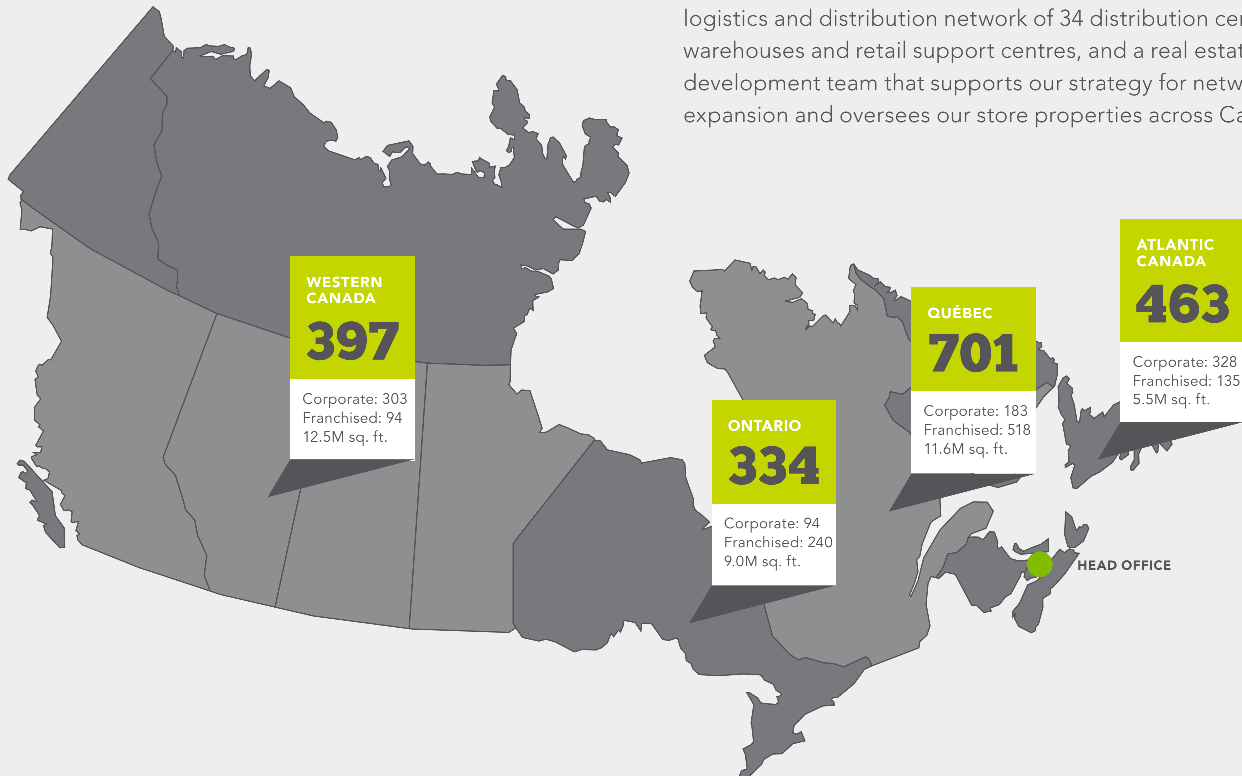
LOCATIONS BY REGION

Our reach

Proudly Canadian and headquartered in Stellarton, Nova Scotia, Empire Company Limited (TSX: EMP.A) is one of the country's leading food retailers.

Our key businesses are food retailing, through our wholly-owned subsidiary Sobeys Inc., and investments and other operations, including a 41.5% equity accounted interest in Crombie REIT.

Our food retailing business is made up of a diversified and complementary group of businesses – food, pharmacy, wholesale, liquor and fuel – supported by a comprehensive logistics and distribution network of 34 distribution centres, warehouses and retail support centres, and a real estate development team that supports our strategy for network expansion and oversees our store properties across Canada.



FOOD

Sobeys extra, Foodland, Sobeys express, Sobeys, Sobeys urban fresh, IGA express, IGA extra, Pete's Fine Foods, Needs, Safeway, Rachelle-Béry, Les Marchés Tradition, Thrifty Foods, Marché Bonichoix, IGA, FreshCo Freshat Cheaper, Chalo! FreshCo

PHARMACY

Sobeys Pharmacy, Pharmacy at Safeway, Thrifty Foods Pharmacy, FreshCo Pharmacy, Foodland Pharmacy, Lawtons Drugs

LIQUOR

Sobeys Liquor, Safeway Liquor, Thrifty Foods Liquor

FUEL

FastFuel, Safeway Gasoline, Shell

Shell Trade Marks reproduced by permission of Shell Brands International AG.

A LONG-TERM TRACK RECORD OF GROWTH

We focus on maximizing long-term value for shareholders.

FISCAL **07**

$13.4 Sales ($ in billions)

$200.1 Adjusted net earnings from continuing operations ($ in millions)

$10.77 Book value ($ per share)

10-year look back

07

AUGUST 2006
Sobeys acquires Achille de la Chevrotière Ltée, for $79.2 million.

08

JUNE 2007
Empire acquires the outstanding common shares of Sobeys that it did not own for $1.06 billion, achieving 100% ownership.

SEPTEMBER 2007
Sobeys acquires Thrifty Foods for $253.6 million.

APRIL 2008
Empire sells 61 properties for $428.5 million to Crombie REIT.

09

MARCH 2009
Empire issues 2.713 million Non-Voting Class A shares at $49.75 per share.

Empire reduces its ratio of debt to capital to 32.7% from 39.8%.

NOVEMBER 2009
Sobeys opens its first automated distribution centre in Vaughan, Ontario.

10

MAY 2010
Sobeys enjoys another record year and receives credit rating upgrades from Standard & Poor's and DBRS, with both ratings at investment grade.

Empire reduces its ratio of debt to capital to 29.3% from 32.7%.

11

OCTOBER 2010
Empire sells its investment in Wajax for net proceeds of $121.3 million.

MAY 2011
Sobeys completes the first year of the FreshCo. discount banner in Ontario with a network of 57 stores in operation by fiscal year-end.

In fiscal 2016, shareholders approved the fourth share split in our history and we increased our dividend for the 20th consecutive year.

Empire shares have delivered an average annual compound return of 13.8% for the last 20 years.

FISCAL 16

$24.6
Sales ($ in billions)

$410.2
Adjusted net earnings from continuing operations ($ in millions)

$13.33
Book value ($ per share)

7.3%
CAGR 2006 to 2016
Adjusted net earnings from continuing operations

12

OCTOBER 2011
Sobeys initiates an organizational realignment to optimize productivity and fully capitalize on its scale.

MARCH 2012
Sobeys purchases 236 Shell branded retail gas locations in Québec and Atlantic Canada for $214.9 million.

13

NOVEMBER 2012
Sobeys begins shipping from its second automated distribution centre in Terrebonne, Québec.

MARCH 2013
Sobeys completes its national implementation of the SAP business platform to fully capitalize on its scale as a $17 billion organization.

14

SEPTEMBER 2013
Sobeys introduces the *Better Food for All* movement to Canadians.

NOVEMBER 2013
Sobeys completes the purchase of Canada Safeway for $5.8 billion.

Empire completes the sale of Empire Theatres for a net gain of $104.2 million.

15

FEBRUARY 2015
Sobeys implements SAP at Safeway, bringing SAP coast to coast.

MAY 2015
Sobeys becomes the first Canadian grocer to issue AIR MILES® reward miles across Canada.

16

During fiscal 2016, Sobeys acquires 12 liquor stores in Western Canada, strengthening its position as a liquor retailer.

JUNE 2015
Sobeys acquires 10 Co-op food stores and fuel sites in Atlantic Canada, and begins supplying food and gas to the majority of the member-owned Co-op locations.

OCTOBER 2015
Sobeys acquires the grocery retail and wholesale businesses of Pete's Fine Foods in Atlantic Canada.

®™ Trademarks of AIR MILES International Trading B.V. used under licence by LoyaltyOne, Co. and Sobeys Capital.

Message from the Chair

Robert P. Dexter
CHAIR

The priority of Empire's Board of Directors is to ensure the successful execution of our strategy and return the Company to long-term profitable growth.

At Empire, our goal is to create long-term, sustainable value through our steadfast focus on food retailing and related real estate, and our commitment to excellent customer service.

Empire shares have delivered an average annual compound return of 13.8 percent for the last 20 years, and in early fiscal 2016, shareholders approved the fourth share split in our history. Yet despite this long-term track record of growth, fiscal 2016 was a disappointing year for Empire. The marked decrease in adjusted net earnings, continued significant challenges with the Safeway integration, impairment charges in respect of goodwill and long-lived assets in the West business unit, and softening sales in other parts of the country led to weak overall results.

On July 7, 2016, the Board of Directors instituted a leadership change, appointing François Vimard, Empire's Chief Financial and Administrative Officer, as Interim President and Chief Executive Officer, and initiating an orderly succession process to identify a permanent leader. I thank Marc Poulin on behalf of the Board and our employees for his efforts and leadership over the past four years and also for the important role he played in building our business in Québec.

The Board is unanimous in its support of François Vimard's leadership and his team's ability to advance the most critical elements of our strategy as we undertake the succession process.

François is a strong leader with a deep understanding of the business. He has held a number of senior management positions during his 21-year career with Empire and Sobeys. His appointment is the result of the Board's strong succession planning for executive transitions, development of the leadership pipeline and commitment to strong governance.

The Board is confident that Empire is pursuing the right strategy, and has given François a clear mandate to prioritize and advance the most critical elements of the strategy to ensure we meet the needs and expectations of our customers and see the return of long-term profitable growth.

Strategic focus

We know that operational excellence and a differentiated food offering that resonates with customers are the two critical ingredients to long-term success in this business.

The long-term strategic investments made in Sobeys' infrastructure over the past several years provide an expanded foundation for building future growth. Through our investments in SAP, automated distribution and other technology, we now have a national retail business platform and a modern distribution infrastructure that supports all of our businesses including Safeway, following the technical integration completed last year.

We continue to build on this solid platform by striving to be *Canada's Better Food Destination* through a compelling and highly differentiated food experience that helps Canadians *Eat Better, Feel Better and Do Better* every day. It is a strategy that builds on our long history in the food retailing business and sets us apart in a highly competitive and continuously changing market where food retailers are constantly evolving their offering.

The scope and complexity of integrating the Safeway and Sobeys businesses posed significant operational and reorganizational challenges, which slowed our progress and affected our results this year, and were compounded by the economic downturn in Western Canada and softening sales in other parts of the country. While the economic factors were outside of our control, we faced a number of challenges even with careful planning, resulting in $3.0 billion in impairment charges in respect of goodwill and long-lived assets for fiscal 2016 – $1.7 billion in the third quarter and another $1.3 billion in the fourth quarter.

The plan developed by management to focus on pricing, network renewal and operating efficiencies is designed to address the operational issues. The Board believes in the critical importance of these structural changes and recognizes that it will take time to stabilize the business and realize the value of the Safeway assets.

We know we must also stay focused on advancing our *Better Food for All* strategy. We are rolling out additional new concept stores and other store formats, focusing on employee training and engagement, and building our complementary businesses like pharmacy, liquor, wholesale and fuel.

Our relationship with Crombie REIT continues to provide an excellent source of capital for Sobeys' expansion, as evidenced by the transaction we completed with Crombie REIT shortly after our 2016 fiscal year-end. The $418 million deal includes $360 million for the sale/leaseback of 19 retail properties and 50 percent interest in each of Sobeys' three automated distribution centres, as well as the sale of two parcels of development land owned by Empire. In addition, Crombie REIT will invest approximately $58 million in renovations or expansions of 10 Sobeys retail locations already in their portfolio.

Strong governance

Empire's Board is highly engaged and committed to strong oversight of the business and our future success. The Board is currently made up of 15 dedicated directors who have experience in the food business, retail, finance, law and consumer businesses, and includes five Sobey family directors, all of whom have served in senior level positions within Sobeys or Empire.

Three of our directors are women, representing 33.3 percent of the independent directors and 20.0 percent of the Board overall. Gender board diversity is important for good governance, and it is especially important because of our customer and employee demographics.

I am pleased to welcome Jim Dickson, who joined the Board last September and Gregory Josefowicz, who was appointed to the Board in June. Jim is a highly regarded lawyer and brings a deep understanding of the food business as a former senior executive of Sobeys. Greg is a seasoned food retailer with many years in both executive and governance roles in the United States, including at Jewel-Osco, Roundy's and Winn-Dixie, together with executive and governance experience at non-food retailers.

After 12 years of dedicated service, Steve Savidant has decided to retire from the Board as of the upcoming annual meeting. Steve has served on the Audit Committee and has chaired the Corporate Governance and Nominating Committees and, for the past two years, the Human Resources Committee, providing strong leadership through changing times. Steve's wise guidance and collegial approach to Board and committee business have been appreciated by all of us and will be truly missed.

I would also like to extend our appreciation to Bonnie Brooks, who resigned from the Board in early July. Bonnie joined the Board in 2012, served as a member of the Corporate Governance, Human Resources and Nominating Committees, and made a significant contribution during her tenure. We will miss her valuable insight and dedication and wish her well in her future endeavours.

In closing, I would like to thank the thousands of people throughout Empire's operations, franchisees and affiliates for their work over the past year and their commitment to our future success and this Company's legacy. I would also like to acknowledge the support of the Sobey family over many years, and the continued confidence of Empire's shareholders.

signed "Robert P. Dexter"

Robert P. Dexter
Chair
Empire Company Limited

July 15, 2016

Letter to shareholders

François Vimard
INTERIM PRESIDENT AND CHIEF EXECUTIVE OFFICER

Fiscal 2016 was a disappointing year for Empire, driven by continuing challenges in our business in Western Canada.

We knew that the second phase of our Safeway integration – the integration of our people, distribution channels, private label and marketing – was going to be hard work simply because of its scope and complexity. But even after careful planning, issues with our private label conversion, our produce supply chain and our people transition presented considerable short-term challenges to the business. These were amplified by a difficult economic climate, particularly in Alberta and Saskatchewan.

Sales this fiscal year were $24.6 billion, same-store sales decreased 0.2 percent, and a net loss, net of non-controlling interest, of $2.1 billion, mainly due to the $3.0 billion in impairment charges, was recorded in fiscal 2016. Adjusted net earnings, net of non-controlling interest, were $410.2 million, down 19.7 percent from a year ago. Excluding the negative impact of fuel sales and our West business unit, same-store sales would have increased 1.5 percent.

We know that the Canadian food retailing marketplace is continuing to experience a significant shift in customer mindset, but we are confident in the direction we are taking. We also know, however, that it is going to take some time for the changes we are making to have an impact.

Three areas of focus

We are addressing our challenges by tackling the following priorities: pricing, store renewal and operational efficiencies.

1. Pricing
We are making important structural changes to our retail pricing. Through a program called *Simplified Buy & Sell,* we are simplifying, standardizing and harmonizing the buy and sell structure across our entire network by redefining our relationship with suppliers. Designed to increase cost transparency and allow for better category management, the program will result in better prices for our customers and improved price perception across the country. We introduced the program to our Québec stores in April, and will be rolling it out across the country. We are in the early stages of this important project and acknowledge that a significant amount of heavy lifting remains.

In Western Canada, we also launched a new brand positioning at the end of the third quarter called *Better food starts here* in both the Safeway and Sobeys banners, that drives home our message about lower prices. The program builds on our *Better Food for All* strategy, and improves the customer experience.

2. Store renewal
We know that revitalizing our stores is important for creating an exceptional food shopping experience – and critical in today's increasingly competitive retail food environment.

We will continue with our store revitalization plans, focusing on markets with the right conditions for delivering a differentiated experience for our customers.

3. Maximizing operational efficiencies
We remain unwavering in our focus on driving efficiencies, and are aggressively tackling the integration challenges and looking for opportunities for improvement across the country.

We are streamlining our distribution network to increase efficiency in our operations, improve the service we provide to our stores and enhance our infrastructure for future growth. Rationalizing our distribution network in British Columbia, Alberta and Southern Ontario is an integral part of the solution.

As part of this, we are building on our proven capability in automated distribution because it improves the speed and accuracy of store orders while allowing us to process higher volumes at lower costs. We are currently expanding our automated distribution centre in Vaughan, Ontario to begin handling frozen and dairy/deli products beginning mid-fiscal 2017. Work is also well underway to retrofit the distribution centre in Rocky View, Alberta, just north of Calgary, which we acquired in the first quarter of fiscal 2016. This will be our third automated distribution centre, and it will supply dry groceries to all stores in Alberta, Saskatchewan and parts of Manitoba when completed.

A long-term strategy that works

In today's fast-paced world, Canadians have more choice than ever when it comes to what they want to eat. It is a choice that can be daunting, especially if you are time pressed and do not know what to cook – or how to cook – and fast food is an easy answer.

Our vision is to be *Canada's Better Food Destination* – setting ourselves apart by offering products and services that help Canadians *Eat Better, Feel Better and Do Better* every day – the first ingredient in a healthy lifestyle.

Our strong food culture and customer focus – combined with our emphasis on operational excellence and driving efficiencies – are helping us create a better food shopping experience that will build long-term customer loyalty. Our national partnership with AIR MILES® and the growth in our complementary businesses like pharmacy, liquor and fuel give us added strength.

Better Food for All

We continued to make solid progress on our *Better Food for All* movement in fiscal 2016, building on our strong food culture, developing our store network, focusing on innovation and enhancing our processes and operations to bring the best service and value to our customers. From new concept stores to new products and services, we are working hard to be *Canada's Better Food Destination*.

Innovative store formats

Our new concept stores welcome customers into a world of food discovery with products, services and savings to help our customers *Eat Better, Feel Better and Do Better*. We had 25 new concept stores at the end of fiscal 2016, with 11 more under construction or renovation.

We opened a new Sobeys Urban Fresh in downtown Ottawa – our first Sobeys Urban Fresh store in Ontario outside of Toronto – offering fresh, delicious hot and cold prepared foods, and regular grocery items for the busy urban shopper.

We opened a Sobeys *express* in Antigonish, Nova Scotia, which was inspired by our IGA *express* banner in Québec and offers our customers a fresh take on convenience.

Chalo! FreshCo. is our new, one-stop discount shopping experience in Brampton, Ontario for South Asian food and North American brands – our first foray into the specialty market and something that we are exploring further based on the strong customer response.

Liquor and beer

We increased the number of liquor stores in Western Canada, and introduced beer to 15 authorized stores in Ontario under the Sobeys, Sobeys *extra*, Sobeys Urban Fresh, FreshCo. and Safeway banners.

Acquisitions

We welcomed Pete's Fine Foods to Empire. Pete's Fine Foods adds two popular retail stores in Halifax and Bedford, Nova Scotia and its wholesale business to our operations. In addition, we are now supplying food and gas to most of the member-owned Co-op locations in Atlantic Canada, and have long-term supply agreements or franchise agreements with each of them.

Synergies in real estate

Our relationship with Crombie REIT gives us access to capital for Sobeys' expansion while, at the same time, allowing us to realize the fair value of our real estate assets. The relationship gives Crombie REIT preferred access to some of the most consistently performing real estate assets in the country.

Our most recent transaction with Crombie REIT, finalized shortly after our fiscal year-end, underscores the strategic benefits of this relationship.

Looking ahead

Our future success will be based on developing our strong *Better Food for All* culture while working diligently on our three areas of focus: restructuring our pricing, making strategic capital investments in key markets where the conditions for success exist, and maintaining a relentless focus on operational efficiencies and cost synergies across the organization.

On behalf of the leadership team, I would like to thank all of our employees for their dedication in a challenging year. I am also pleased to welcome three new members to the leadership team: Yves Laverdière as President of our Québec business unit, Beth Newlands Campbell as President of our Atlantic/Ontario business unit and Lyne Castonguay as Chief Merchandising Officer.

It will take time, but with over 109 years of experience, a strong track record and a solid strategy, we believe in the direction we are taking to see the return of long-term profitable growth for the Company.

signed "François Vimard"

François Vimard
Interim President and
Chief Executive Officer
Empire Company Limited

July 15, 2016

CANADA'S BETTER FOOD DESTINATION

Helping Canadians Eat Better, Feel Better and Do Better

Current research shows that 43 percent of Canadians say they do not cook balanced meals for themselves or their family on a regular basis.(1) At the same time, a growing number of Canadians are concerned about the food they are eating: 65 percent have made changes to their diet to improve their general health and well-being, 59 percent claim they look for foods with simpler ingredients, and 90 percent say they read the ingredient list on foods they buy.(2)

We make a difference in the lives of Canadians by making it easier for them to make better food choices for themselves and their families.

(1) Ipsos Reid poll conducted for Dietitians of Canada, 2014
(2) Ipsos Reid, March 2015

Jamie Oliver

Sobeys is working with Jamie Oliver to help bring better food to Canadians.

Internationally renowned chef, author and advocate for better food, Jamie works tirelessly to share food knowledge and promote the importance of balanced nutrition, quality ingredients and cooking skills.

Food share

Across our network we have implemented a program of sharing food ideas and tips with our colleagues at all levels of the business. This concept is having a positive impact on the growth of our food culture across the organization.

Mieux manger

IGA in Québec works with three Québec food celebrities – Christian Bégin, Josée di Stasio, and Stefano Faita – to offer ways to eat healthier, cook more, choose locally and responsibly, and discover new flavours for *Le plaisir de mieux manger, The Joy of Eating Better.*

See what's in store

We are using our skills, experience and passion for food to give Canadians more choice, healthier options and an exceptional food shopping experience that is changing their relationship with food. Read on to see examples and learn more about how we are bringing our vision to life.

1

WHAT WE OFFER OUR CUSTOMERS

Our five core retail food formats ensure we are meeting the food shopping needs of our customers.

2

WHERE OUR FOOD COMES FROM

We are investing more time with suppliers to ensure the highest quality right at the source and strengthen relationships that will guarantee us access to the best products at affordable prices for our customers.

3

HOW WE DISTRIBUTE IT

We focus on logistics, warehousing and transportation to bring great products to our stores faster and more cost-effectively, and ensure freshness and quality at the best price.

4

HOW WE CREATE THE BEST SHOPPING EXPERIENCE

Passionate employees mean better service, more effective selling, more satisfied customers, and a culture that fosters new ideas – all key ingredients in creating a great food shopping experience.

5

WHY CANADIANS SHOP WITH US

We make good food affordable – and offer healthy tips, convenient solutions and valuable promotions – to provide more value to our customers while helping them eat better every day.

SUSTAINABILITY STRATEGIES

We integrate sustainability into every aspect of our business – from the products we offer and the communities we support, to the way we operate – to reduce our environmental footprint and help our customers lead a more sustainable lifestyle.

Read more about our approach to sustainability in the pages that follow and online at sobeyssustainability.com/en/home.aspx.

CANADA'S BETTER FOOD DESTINATION

1

What we offer our customers

Bringing the best ingredients, more selection, healthy options and good value

Cheese lovers delight

Every cheese tells a story, offering a world of flavour, texture and strength.

One of the many ways we are improving our food offering is by carrying a wide selection of specialty cheese in our stores. Many stores offer over 250 varieties of cheese in nine distinct types, including *Smart Choices* cheese featuring certified organic, lactose-free and fat-free options.

Cheese becomes easier to select when you understand its key characteristics. We number our cheese by strength, and in a growing number of stores across the country, we pair our cheese with cheese ambassadors – expert guides who help our customers discover the right cheese for their needs, and can discuss everything from the production and aging process to nutrition, storage and handling. Many are Certified Cheese Professionals, the highest designation awarded to cheese professionals in North America.

Our five core retail food formats ensure we are meeting the food shopping needs of our customers in every market in which we operate.

Full service

Fresh

Community

Discount

Convenience

Feature:

Sobeys *extra*

Our new concept Sobeys *extra* and IGA *extra* stores welcome customers into a world of food discovery with *extra* departments, products, services and savings that are designed to help them *Eat Better, Feel Better and Do Better* every day.

From well-being counsellors and dietitians to chefs, pharmacists, fish mongers, expert butchers and cheese ambassadors, *extra* employees bring added knowledge and enhance the shopping experience.

Sobeys Urban Fresh

Sobeys Urban Fresh stores are designed as a one-stop grocery destination for the urban shopper, featuring an assortment of fresh produce, regular grocery items and a buffet of hot and cold prepared foods to go.

Our new store on Metcalfe Street in downtown Ottawa also offers a sushi and noodle bar, a café, extended hours and easy access to complimentary parking.

Foodland and Bonichoix

Foodland serves the routine and fill-in needs of smaller communities in Ontario and Atlantic Canada, while Bonichoix serves the same needs across rural Québec.

These stores serve as local community hubs, selling food including a unique blend of fresh baked goods, ready-to-eat salads, fine cheese and a range of other popular grocery products.

Chalo! FreshCo.

Chalo! FreshCo. is our new discount store in Brampton, Ontario, which caters to the rapidly growing South Asian community and others interested in South Asian food.

Chalo, which means "let's go" in many South Asian languages, invites shoppers to a traditional FreshCo. offering of popular North American brands, plus thousands of South Asian products including rice, spices, lentils, fresh produce, seafood, halal and non-halal meat counters, as well as Amaya, a popular Indian restaurant.

IGA *express*

IGA *express* is redefining convenience for Québec customers on the go, offering a unique blend of a supermarket, convenience store and bistro. Customers can choose from fresh fruit, vegetables, meat and bread, wine and microbrewery beer from a special temperature controlled room, a variety of 20-minute meal solutions and more.

Building on the success of IGA *express*, we have extended the convenience model to the Sobeys banner, and opened our first Sobeys *express* in Antigonish, Nova Scotia in December 2015.

Reducing food waste

Every year Canadians waste $31 billion in food. This year, we announced a plan to help reduce that by committing to a 50 percent reduction in food waste from our direct operations by 2025.

Odd-looking produce

Last harvest season, IGA and IGA *extra* stores in Québec sold 3.6 tonnes of Québec grown misshapen fruits and vegetables at an average discount of 30 percent during a six-week campaign. Customers know that odd-looking produce offers the same taste and nutritional value as regular produce, and sales jumped by 24 percent for cucumbers, carrots, tomatoes, beets, sweet peppers and apples.

Helping our customers reduce food waste

Nearly half of the food waste in Canada occurs at home. Here are two ways we are tackling this issue:

- IGA merchants teamed up with Le Jour de la Terre Québec and La Tablée des chefs to hold 100 workshops ("À vos frigos"). These unique workshops provide customers with tips and tricks to reduce household food waste, like creating shopping lists, buying quantities according to the amount of portions needed, recipes for getting the most out of purchases, and great ideas for cooking with leftovers.
- Safeway stores partnered with Metro Vancouver and the Love Food/Hate Waste program to help people get the most out of the food they buy. The program, which included in-store activation in 10 Safeway stores in Vancouver, was supported by radio spots in all Safeway store communities in British Columbia. The program offered storage tips to extend freshness, seasonal menus prepared by the North Shore Culinary School, and information about portion calculation and 'best before' dates.

CANADA'S BETTER FOOD DESTINATION

2

Where our food comes from

Spending time with suppliers to ensure quality right at the source

Fresh fish and seafood

We offer high quality and a broad selection at affordable prices.

We make it easy to choose the best fresh fish and seafood. The employees at our seafood counters help customers navigate the many options available – whether it's mussels from Prince Edward Island or salmon from British Columbia. They also offer storing, cleaning and cooking tips to help create the perfect meal.

Our *Better Food Guide to Seafood*, just one of the online food guides in the *Better Food For All* section of the Sobeys website, also provides a wealth of useful information, including the most popular choices of fish and shellfish, suggested serving sizes, and how to tell when fish is at its peak of freshness.

We are investing more time with suppliers to ensure the highest quality right at the source and strengthen relationships that will guarantee us access to the best products at affordable prices for our customers.

Fresher produce

Fresher produce is better and tastier. We are improving every aspect of our produce chain – from the farm to the plate – to bring customers the freshest produce at the best possible value.

Our new sourcing office in Arizona along with our existing Florida office allow us to be closer to U.S. growers to source quality imports at the best possible cost. We have also added quality control vendor relationship specialists on both coasts to conduct regular inspections to ensure we receive the best quality and freshest products the growers have to offer. With the sourcing offices and quality control focused on our imported product offering, our regional teams can spend more time with local and domestic growers in Canada.

Local

We have strengthened our relationships with local farmers across the country, creating a positive impact on local economies and reducing the amount of energy used to transport the goods to our stores.

Quality meat

We are committed to sourcing local Canadian meat first, but will always look for opportunities to provide our customers with the best value. Our Certified Island Beef, for example, is the result of a partnership between Sobeys, the Cattle Producers Association of Prince Edward Island, the Food Island Partnership and Atlantic Beef Products Inc.

Our customers are increasingly concerned about animal welfare and the use of antibiotics and steroids in animals used in food production. Our new meat packaging identifies the source, and makes it easy for customers to select products by age or cut, or to choose Certified Humane™, air chilled, grain fed or raised without antibiotics or added hormones.

Getting fresher produce from field to table: here's how we do it

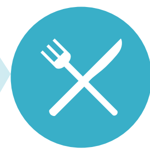
Spending more time with farmers to cultivate strong relationships

Leveraging our scale and purchasing power to get the best quality at the best price

Working with our growers seasonally to expand the availability of local and Canadian produce

Optimizing distribution and logistics to bring fresh produce to stores faster

Increasing training to help store staff better handle, merchandise and display produce



Humane treatment of animals

Better food comes from better sources. We are committed to the humane and respectful treatment of all livestock animals within our supply chain, including beef, dairy cows, laying hens, poultry and pork.

Canadian beef

In fiscal 2016 we became an associate member of the Canadian Roundtable for Sustainable Beef, and collaborate with fellow stakeholders from the beef value chain such as Cargill, World Animal Protection and the National Cattle Feeders Association to advance the sustainability of the Canadian beef industry.

Milk-fed veal

We support the work of the Veal Associations of Québec and Ontario in their recommendation to transition from individual stalls for milk-fed veal production to group housing methods by December 2018.

Fresh pork

As a member of the Retail Council of Canada, we support the Canadian Pork Council's process to update its Codes of Practice in support of good animal welfare. Our goal is to source all fresh pork products from sows raised in alternative housing practices defined in the updated codes by the end of 2022.

Cage-free eggs

We are working with the egg industry to transition to a completely cage-free offering in our stores by the end of 2025. This change in egg sourcing will improve the welfare of laying hens. Through our membership with the Retail Council of Canada, we have been working with other retailers and animal welfare organizations to develop and implement best practices regarding the care and handling of laying hens.

CANADA'S BETTER FOOD DESTINATION

3

How we distribute it

Operating efficiently to provide freshness and quality at the best price

Fresh produce and more

We offer more in freshness, more in season, more in local.

Our focus on distribution efficiency helps ensure our stores carry a wide selection of the freshest fruit and vegetables – from fruit and leafy greens to root vegetables, herbs and more – at the best possible prices.

At the same time, we help our customers learn about how to get the most from their fresh produce. Advice from store staff, in-store displays, and online tips and guides tell our customers how to maintain freshness at home, so produce will last longer. Customers also learn about varieties, taste, ripeness and cooking, including how to select tomatoes by sweetness, potatoes by use, and alternatives to choose when a favourite is not in season.

We focus on logistics, warehousing and transportation to bring great products to our stores faster and more cost-effectively, and ensure freshness and quality at the best price.

Integrating our point-of-sale infrastructure with distribution and logistics is key to ensuring we deliver the right products to our stores at the right time and at the right cost.

We are leveraging our distribution capability to make sure we operate as efficiently as possible and maintain our competitive advantage.

Above: Our distribution centre in Terrebonne, Québec uses state-of-the-art technology to improve efficiency and service to our stores.

Automated distribution

Our two automated distribution centres for dry groceries (Vaughan, Ontario and Terrebonne, Québec) were the first of their kind in Canada. Using WITRON Integrated Logistics warehousing and picking technology, both centres assemble customized pallets that pack more items in less time and with more accuracy than methods used in traditional warehouses, improving our efficiency and store deliveries.

Both centres are also scalable to support the growth of our business; and we are expanding the Vaughan distribution centre so it can handle frozen and dairy/deli products starting in mid-fiscal 2017.

Work is also well underway on our third automated distribution centre in Rocky View, Alberta. Slated to begin its automated operations by the end of fiscal 2017, the Rocky View facility will warehouse dry groceries and support our stores in Alberta, Saskatchewan and parts of Manitoba.

Network harmonization

We also remain focused on continuing to drive efficiencies throughout our distribution network by optimizing and rationalizing existing assets in the network. In fiscal 2017, we will consolidate our two conventional Ontario distribution centres for meat and produce, and rationalize our Sobeys, Safeway and Thrifty Foods distribution centres in Western Canada as part of the Safeway integration.

Saving energy

In our stores, distribution centres and offices, we are working to reduce our energy consumption and implementing systems to reduce our environmental impact. Our energy conservation efforts have reduced our electricity consumption by approximately 12 percent – that's equivalent to the electricity used by 3,600 Canadian homes each year.

Building design

We use the Leadership in Energy and Environmental Design (LEED®) standards to guide the construction and renovation of our stores, distribution centres and offices. LEED® is a voluntary, consensus-based standard administered by the Canada Green Building Council.

This year our automated distribution centre in Terrebone received LEED® silver certification. The centre has an energy efficient lighting system, electronic sensor faucets to conserve water, a white roof made of recycled materials, a heat recovery system for collecting the waste heat produced by conveyor belt motors and other automated equipment to warm the building.

Refrigeration

Traditional refrigerant systems are known for their high contribution to global warming because of the chemical properties of the fluorohydrocarbon (HFC) gas used as a coolant. We have switched from using HFC gas to carbon dioxide, a natural refrigerant, in all new builds and major retrofits for our full service stores (approximately 98 stores). This has reduced the global warming impact of normal operating leaks by over 99 percent, and made Sobeys a North American leader in natural refrigerant systems. We have received recognition for this from the United Nations Environmental Program, the United States Environmental Protection Agency, the Retail Council of Canada, North American ATMOsphere 2016 and others.

CANADA'S BETTER FOOD DESTINATION

4

How we create the best shopping experience

Having all the key ingredients for the best food shopping experience

Wine, spirits and beer

A great selection that pairs with every taste and budget.

We continue to focus on innovative ways to better serve our customers to enhance their shopping experience. We added 17 new liquor stores this year – including 12 by acquisition. Two flagship stores in Saskatchewan – Stonebridge in Saskatoon and Rochdale in Regina – have a wide assortment of wine, spirits and beer, and a 360° tasting bar where customers can sample any beverage featured in our weekly flyer.

We also now offer beer in 15 authorized stores in Ontario under the Sobeys, Sobeys *extra*, Sobeys Urban Fresh, FreshCo. and Safeway banners. Customers can choose imported, craft and domestic beer in six-packs, single cans and bottles. Weekend beer and food tastings and promotions help our customers find a better accompaniment to complete any meal.

Photo: Charlene Codner

Passionate employees mean better service, more effective selling, more satisfied customers and a culture that fosters new ideas – all key ingredients in creating the best food shopping experience.

Customer relationships

We survey customers three times a year to receive feedback and drive our continuous efforts to meet their needs; surveying over 370,000 customers this year. We are building on these relationships by engaging more customers, more often, to help us continually improve. We are moving to continuous research over the coming year so we can receive constant feedback and calibrate more quickly.

Above: Our expert butchers can custom cut meat for any occasion and answer questions about our wide selection of quality meat.

Employee engagement

We have learned from experience that having highly engaged employees helps us deliver the best shopping experience, more satisfied customers and ultimately stronger financial performance. We have been surveying employees for the past several years, asking them about 12 elements that matter most to them, and taking action on what we learn to increase engagement right across the organization. For example, we are investing more time in development – ensuring employees have the right knowledge, training, coaching and individual development plans for a clear path ahead.

Testing new ideas

Store renovations are an ideal opportunity to test new ideas with customers, like the physical location of certain departments.

Knowing that more than one in five Canadian households buys Nutella®, we decided to surprise and delight our customers when we opened our newly renovated Spadina Sobeys Urban Fresh store in downtown Toronto, by launching Canada's first Nutella® Café. Opened in November 2015, the café offers an assortment of fresh pastries and breads made with Nutella®, and made-to-order crêpes with Nutella® and coffee. It has been successful in increasing store sales and customer traffic.

® Trademark of Nutella owned by Ferrero S.p.A.

Recycling for life

We collaborate with our waste management partners in widespread efforts to reduce the amount of paper, cardboard, plastic and organic waste sent to landfill and to recover as much cardboard and plastic as possible.

Packaging
From manufacturing and transportation to consumer and end-of-life disposal, we evaluate the environmental impact of packaging at all stages of the product lifecycle and work to steadily reduce the amount of steel cans, glass jars, plastics and boxboard containers we use.

Recycling
We participate in several provincial Extended Producer Responsibility programs and fund the majority of the recycling for the packaging of our private label products. We are also assessing alternative materials and designs, and we are looking at ways to optimize packaging to preserve product integrity, ensure food safety, minimize weight and increase the recyclability of materials.

Plastic
Customers like our Sobeys Green Bag for Life because it reduces the use of plastic bags and is made of recycled material. We have seen a steady increase in sales of the Green Bag for Life since we introduced it. This year we sold close to 3 million in our Sobeys stores alone.

CANADA'S BETTER FOOD DESTINATION

5

Why Canadians shop with us

Helping our customers eat better – and live better – every day

Wellness

Going beyond food to help our customers focus on healthy living.

We encourage our customers to take a holistic view of their health by providing an in-store wellness area and a team of experts who offer advice and support.

Well-being counsellors in our new concept stores have a background in holistic health and are knowledgeable about all of the products in our wellness section, including gluten-free, probiotics, Omega 3 and natural source. Registered dietitians provide nutritional tips about these products and other foods, and can provide input on managing health conditions, such as lowering blood sugar or blood pressure. At select stores, they also lead free classes on topics such as properly reading nutrition labels and partner with our in-store chefs to offer classes on healthy eating. Our pharmacists are also an important resource to help our customers manage their medication and health care needs.

We make good food affordable – and offer healthy tips, convenient solutions and valuable promotions – to provide more value to our customers while helping them eat better every day.

Private label

Our private label portfolio brought together the best of Safeway and Sobeys. It features a full range of food, health and wellness products – including products from natural sources with no additives or preservatives, gluten-free, sugar-free and organic products – as well as health and beauty, baby, pet and eco-friendly household items.

Our *Compliments* private label portfolio is made up of more than 5,000 products that offer the best quality and value without compromising taste. We test ideas with employees and develop our products in our kitchens – always with the goal of minimizing the use of sodium, sugars, transfats, hydrogenated fats or oils and removing unnecessary additives and preservatives. All products are then tested with customers to see if they are ready for store shelves or need further development.

In-store pharmacies

Customers can visit one of our in-store pharmacies at Sobeys, Safeway, Thrifty Foods, Foodland and FreshCo. stores across the country, and have their prescriptions filled while they shop.

Customers can also get a flu shot, meet with a pharmacist to review their medication and get a better understanding of their prescriptions or take advantage of our many other services, including diabetes counselling, smoking cessation programs, pre-travel consultations and our *Baby Be Healthy* program.

Free fruit for kids

We are helping kids eat better, too. Every day, select Sobeys, Safeway and Foodland full-service stores offer fresh fruit in special baskets for kids to help themselves to healthy snacks.

Staying connected

We connect with our customers in every market – and help them connect with each other – through websites, Twitter, Facebook and other apps and tools.

My Offers is a new program where customers receive personalized emails every week with AIR MILES® bonus miles or cash discounts that are redeemable at Safeway, Sobeys or IGA stores in Western Canada.

Our new IGA mobile app makes eating better even easier. The app features a personalized flyer, weekly promotions and recipes, smart lists and an easy-to-use e-commerce tool that allows customers to access all products and order groceries quickly and securely from their mobile device. IGA in Québec and Thrifty Foods in British Columbia also offer online grocery shopping through their websites for their customers.

Social accountability

We source our products locally, nationally and globally in a responsible manner while engaging various stakeholders in the more than 900 communities in which we operate.

Supply chain
We work collaboratively with suppliers, industry groups and non-governmental organizations to help advance labour and social conditions throughout our supply chain.

We routinely request internationally recognized third-party audits for private label manufacturing facilities operating in high risk countries, and in calendar 2015, we completed 75 audits across our global supply chain. These audits are designed to have a positive impact on health and safety, workers' rights, forced and child labour, equal opportunity and more.

Small producers
Sobeys was named a Canadian finalist for the 2015 Retailer of the Year award for our work with Fairtrade Canada, which stimulates economic activity for marginalized small producers in the developing world.

As a market leader in Fairtrade flower sales in Canada, Sobeys is contributing to the welfare of a Kenyan flower farm and its 5,000 workers. This has generated social premiums of nearly $55,000 for Fairtrade certified roses, which has been invested in education, health care and community development programs.

IGA and IGA *extra* are the only major grocery stores in Canada to sell Fairtrade organic bananas. Together they support approximately 400 banana producers in northern Peru and provide nearly $30,000 in social premiums.

Supporting our communities

Building on the legacy of the Sobey family, we – together with our business units, franchisees, affiliates and employees – give our time and invest millions of dollars every year in the 900+ communities where we live and work to improve the lives of Canadians.

About the Sobey Foundation

Founded in 1982 by Frank H. Sobey and sons Bill, David and Donald, the Sobey Foundation focuses on improving the lives of individuals through investments in health, education and community. The Foundation works with the Sobeys corporate office and individual stores to support community-based projects in Atlantic Canada and across the country.

In 2015, the Sobey Foundation and members of the Sobey family invested $3 million in youth mental health by creating the first-ever Chair in Child and Adolescent Mental Health Outcomes, a cross appointment between the IWK Health Centre and Dalhousie University in Halifax.

Dr. Leslie Anne Campbell, inaugural Sobey Family Chair in Child and Adolescent Mental Health Outcomes, is working closely with members of the IWK Health Centre's Mental Health & Addictions team and many others to transform the way mental illness in young people is treated and tracked, closing a gap she recognized early on while working as a mental health nurse. Drawing on her clinical experience and quantitative research, Dr. Campbell leads several local and national collaborations that promote the use of outcomes research and have the potential to improve mental health services for youth across Canada.

"It was while I was working with my patients and their families that I recognized that we needed support in knowing that we were providing the right care to the right patient at the right time," says Campbell, an assistant professor in the Department of Community Health & Epidemiology at Dalhousie University.

Dr. Leslie Anne Campbell, Inaugural *Sobey Family Chair in Child and Adolescent Mental Health Outcomes*

"I wanted to be sure that patients didn't end up back in hospital when they wanted to be at home with their families, going to school or hanging out with their friends."

The North York Harvest Food Bank is the principal food bank for northern Toronto. During an emergency relocation to a new facility, the NYHFB partnered with the Sobey Foundation in a five-year $250,000 agreement to cover all rental costs associated with its new location. Sobeys Ontario had been a long-time partner of the NYHFB, through a wide array of cash and in-kind support. The partnership has enabled the Food Bank to focus on fundraising for its core functions of distributing over two million pounds of food through 60 community programs to citizens across northern Toronto.

From grassroots initiatives to larger partnerships, we work with our local communities to make sure more Canadians – regardless of income, age or ability – have access to affordable, wholesome food, basic cooking skills and nutrition education, to help them lead healthier, more active lives and reach their full potential.

Established in 2014, the Sobeys Inc. Better Food Fund supports access to, and the advancement of, better food through donations and partnerships with national and regional charities. We support organizations that help Canadians:

Eat Better – Food access through food banks and meal programs

Feel Better – Health management, prevention and research on food-related health issues

Do Better – Food literacy through nutrition education and cooking skills training

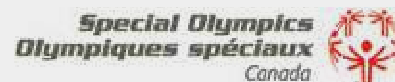
Support for Local Food Banks

We bring our passion for wholesome affordable food into the communities we serve, and supporting local food banks and meal programs is just one example of the many ways we respond to the needs of our neighbours. Every year, we help the over 850,000 Canadians[1] who use a food bank every month, and create initiatives and programs to address the increased levels of food insecurity in the communities where we operate. Support varies by local community, but can include food drives, fundraising, nutrition education and fresh and non-perishable food donations. When added together, millions of dollars and millions of pounds of food are donated to help ensure shelves are filled when the need is high.

(1) HungerCount 2015 – Food Banks Canada

In 2014, Sobeys Inc. Better Food Fund partnered with Free The Children to create Home Cook Heroes, a program designed to teach 12 to 17 year old students about nutrition literacy and food awareness. In a series of six lessons, students learn about what they are eating and the impact it has on their bodies, develop cooking skills that help them learn to prepare and make meals, and direct their new-found nutrition literacy to creating positive local and global change. The lesson plans include reading food labels, Canada's Food Guide, the journey food takes from field to plate, eliminating waste, food culture across Canada and the importance of sharing meals. Home Cook Heroes has reached over 40,000 youth in hundreds of schools across Canada since it was formed.

Students at We Day Alberta in October, 2015.



Research shows that Canadians with intellectual disabilities have many health issues, including obesity, heart disease, stroke, type 2 diabetes and some forms of cancer. Nutrition education is critical to reducing the risk of chronic disease, but people with intellectual disabilities and their caregivers face additional daily stresses, unique healthcare requirements and the need for a different approach to understanding what is possible.

In October 2015, the Sobeys Inc. Better Food Fund announced a three-year partnership with Special Olympics Canada. Hundreds of local Special Olympics programs across the country will give thousands of Canadians with intellectual disabilities – from two-year-olds to senior citizens, and their families, caregivers and coaches – access to wholesome food, cooking skills and nutrition education.

Special Olympics athletes at the 2016 Special Olympics Canada National Winter Games, Corner Brook, Newfoundland and Labrador.

Committed to strong stewardship and Empire's continued success

Directors of Empire Company Limited as of July 15, 2016

Robert P. Dexter (9)
Halifax, Nova Scotia
Director since 1987
Chair & Chief Executive Officer, Maritime Travel Inc.

Cynthia Devine (2)(5)(7)
Toronto, Ontario
Director since 2013
Chief Financial Officer, RioCan Real Estate Investment Trust

James M. Dickson (5)
Halifax, Nova Scotia
Director since 2015
Stewart McKelvey

Gregory Josefowicz (3)
Detroit, Michigan, USA
Director since 2016
Corporate director

Sue Lee (3)
Calgary, Alberta
Director since 2014
Corporate director

William Linton (1)(5)(7)
Toronto, Ontario
Director since 2015
Corporate director

Kevin Lynch (3)(6)(8)
Ottawa, Ontario
Director since 2013
Vice Chairman, BMO Financial Group

Stephen J. Savidant (4)(5)(7)
Calgary, Alberta
Director since 2004
Chair, Enerflex Ltd.

Frank C. Sobey (5)
Pictou County, Nova Scotia
Director since 2007
Chairman, Crombie REIT

John R. Sobey (1)
Pictou County, Nova Scotia
Director since 1979
Corporate director

Karl R. Sobey (3)
Halifax, Nova Scotia
Director since 2001
Corporate director

Paul D. Sobey (5)
Pictou County, Nova Scotia
Director since 1993
Corporate director

Robert G. C. Sobey (3)(5)
Stellarton, Nova Scotia
Director since 1998
Corporate director

Martine Turcotte (1)(5)(7)
Verdun, Québec
Director since 2012
Vice Chair, Québec, BCE Inc. and Bell Canada

François Vimard
Mississauga, Ontario
Director since 2016
Interim President and Chief Executive Officer, Empire Company Limited and Sobeys Inc.

(1) Audit Committee member
(2) Audit Committee Chair
(3) Human Resources Committee member
(4) Human Resources Committee Chair
(5) Corporate Governance Committee member
(6) Corporate Governance Committee Chair
(7) Nominating Committee member
(8) Nominating Committee Chair
(9) Chair of the Board

To learn more, please visit www.empireco.ca/governance

Corporate Officers as of July 15, 2016

Robert P. Dexter
Chair

François Vimard
Interim President and Chief Executive Officer

Clinton Keay
Interim Chief Financial Officer

Karin McCaskill
Senior Vice President, General Counsel and Secretary

L. Jane McDow
Assistant Secretary

Management's Discussion and Analysis

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The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 14 and 53 weeks ended May 7, 2016 compared to the 13 and 52 weeks ended May 2, 2015. It should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the 53 weeks ended May 7, 2016 compared to the 52 weeks ended May 2, 2015. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The audited consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD"). These consolidated financial statements include the accounts of Empire and its subsidiaries and structured entities ("SEs") which the Company is required to consolidate. The information contained in this MD&A is current to June 28, 2016, unless otherwise noted.

FORWARD-LOOKING INFORMATION

This document contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Company's financial position and understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" and other similar expressions or the negative of these terms.

These forward-looking statements include, but are not limited to, the following items:

- The Company's key assumptions used in the calculation of the impairment of long-lived assets, includes, long-term growth rates ranging from 3.0 percent to 5.0 percent and pre-tax discount rates that range from 7.0 percent to 10.0 percent. These assumptions were applied to the Company's internal forecasts to create cash flow projections. There is a risk that internal forecasts will not be achieved and actual long-term growth rates will fall outside of the ranges used;
- The Company's key assumptions used in the calculation of the impairment of goodwill include the after-tax discount rate, the growth rates and the operating margins used to estimate future performance. These are equally based on past performance and experience with growth rates and achievable operating margins. The after-tax discount rate used was 10.0 percent. An assumed annual growth rate of 3.0 percent and an assumed terminal growth rate of 3.0 percent were used. The risk is that the growth rates and operating margins used in the calculation will fall outside of the determined amounts;
- The Company's expectations relating to the timing of mitigation and remediation of organizational, training and education gaps related to IT system, process integration and reorganizational changes at Safeway, which may be delayed by further unforeseen challenges;
- The Company's expectations relating to the operational challenges being faced primarily in Western Canada, which may be impacted by a number of factors including the under performance in fiscal 2016 and future mitigating strategies employed;
- The Company's expectations relating to the shortfall of minimum purchases required on supply agreements that resulted from the disposal of manufacturing facilities in fiscal 2015. This could be impacted by the success of mitigation strategies being implemented in Western Canada, changes in actual purchase volumes and customer demand;
- The Company's expectations regarding the impact of organizational realignment, including expected efficiencies, cost savings, and the impact on long-term earnings which could be impacted by the timing of positions eliminated, the time required by the Company to complete the realignment and the time required for employees to adapt to the changes;
- The Company's expectations regarding the cost savings related to the distribution centre restructuring, which could be impacted by the final number of closures and positions eliminated;
- Timing and value of expected synergies from the Canada Safeway acquisition, which may be impacted by a number of factors, including the effectiveness of ongoing integration efforts;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in capital markets;
- The Company's expectation that its operational and capital structure is sufficient to meet its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;

- The Company's belief that its cash and cash equivalents on hand, unutilized credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment; and
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices.

By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of this MD&A.

Although the Company believes the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements do not take into account the effect of transactions occurring after the statements have been made on the Company's business. The forward-looking information in this document reflects the Company's current expectations and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made by or on behalf of the Company other than as required by applicable securities laws.

OVERVIEW OF THE BUSINESS

Empire's key businesses are Food retailing and related real estate. The Company's financial results are segmented into two separate reportable segments: (1) Food retailing and (2) Investments and other operations.

With $24.6 billion in sales and $9.1 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 125,000 people.

Food Retailing

Empire's Food retailing segment is carried out through Sobeys.

Proudly Canadian, with headquarters in Stellarton, Nova Scotia, Sobeys has been serving the food shopping needs of Canadians since 1907. As of May 7, 2016, Sobeys Inc., a wholly-owned subsidiary of Empire (TSX: EMP.A), owns, affiliates or franchises more than 1,500 stores in all 10 provinces under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo., Thrifty Foods, and Lawton's Drug Stores as well as more than 350 retail fuel locations. The Company's purpose is to help Canadians *Eat Better, Feel Better and Do Better*.

In fiscal 2014, Sobeys introduced its *Better Food for All* movement to empower Canadians to *Eat Better, Feel Better and Do Better* through a variety of better food experiences and as an advocate for better food education. In fiscal 2016, Sobeys continued to execute a number of initiatives in support of this food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

Significant Items

Impairment of Goodwill and Long-Lived Assets[1]

The Company reviews the carrying value of its long-lived assets at each reporting period for indications of impairment. The Company reviews goodwill for impairment on an annual basis, or more frequently, if indicators of impairment exist. As a result of operational challenges faced in Western Canada, primarily under the Safeway banner, and the outcome of the long-lived asset impairment test in the third quarter, the Company reviewed goodwill for impairment as at January 30, 2016.

Goodwill and long-lived assets are reviewed for impairment by assessing the recoverable amount of each cash generating unit ("CGU") or groups of CGUs to which the goodwill or long-lived assets relate. When the recoverable amount for the CGU or groups of CGUs is less than the carrying amount an impairment loss is recognized. For a detailed discussion of the impairment methodology and calculation please see Notes 8 and 11 of the audited consolidated financial statements for the 53 weeks ended May 7, 2016.

(1) The following represents forward-looking information described under the "Forward-Looking Information" section of this MD&A.

During the third quarter of fiscal 2016, management determined there were indicators of impairment in the West business unit as a result of the significant operational challenges the Company has experienced under the Safeway banner, discussed further in the Safeway Integration section below, the outcome of the long-lived asset impairment test, and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. During the 13 weeks ended January 30, 2016, the Company recorded an impairment of long-lived assets of $137.7 million and an impairment of goodwill of $1,592.6 million representing the write-down of certain store assets in the Sobeys West operating segment and related goodwill, to their recoverable amount.

During the fourth quarter of fiscal 2016, the operational and economic challenges in Western Canada have deepened with increasing markets being impacted. The Company continues to experience significant negative trends in its operating results of the Sobeys West operating segment and views these trends as indicators of further impairment. Management performed an assessment of the recoverability of goodwill and long-lived assets during the 14 weeks ended May 7, 2016, and the Company recorded additional impairments of long-lived assets of $10.9 million and fully impaired goodwill for the Sobeys West operating segment by recording an additional impairment of $1,285.9 million. As at the end of fiscal 2016, there was no remaining goodwill within the West business unit.

Safeway Integration[1]

Following the close of the Canada Safeway acquisition, the Company began the integration of the acquired business with existing operations which has resulted in a number of operational issues that have had an impact on financial results. This integration continues to present significant challenges as the organizational, training and educational gaps related to the information technology system and process integration of the acquired business continue to be identified by the Company. These business integration challenges were coupled with operational challenges, experienced during fiscal 2016. Merchandising issues such as the private label conversion along with produce supply chain issues impacted the offerings being made to customers at store level. In addition, increased promotional activity and a difficult economic environment mainly in the Alberta and Saskatchewan markets, resulted in sales, gross margin and earnings erosion in the West business unit. These have negatively impacted customer experience and resulted in same-store sales[2] for the West business unit, excluding fuel, of (3.6) percent and (1.5) percent for the 14 and 53 weeks ended May 7, 2016, respectively.

These challenges are being aggressively addressed and mitigation plans continue to be developed and implemented across the Safeway operations and are the top priority for management. The Company introduced a major initiative in Western Canada designed to address sales erosion related to promotional activity and to build back customer loyalty. The *Better Produce at Lower Prices* initiative launched in the Safeway and Sobeys banners resulted in store pricing lowered on many produce items and aims to bring better quality, reduced prices and variety of choices to customers.

During the fourth quarter of fiscal 2015, as part of the Company's three-year integration plan, Sobeys completed a review of its business support functions and identified restructuring opportunities. This organizational realignment is designed to strengthen the support network by consolidating the majority of office functions and processes in Calgary. It is also expected to maximize the efficiency of the network and improve net earnings over the long term as a result of cost savings. These anticipated long-term benefits were not without short-term challenges. Although the various risks associated with integration were identified, including the amount and pace of change required, the organization underestimated the time required to adapt. Uncertainty in the workforce had a significant impact on operational efficiencies and productivity for the West business unit. The Company has completed its staff selection and is nearing completion of the transition process for those employees. For the 14 and 53 weeks ended May 7, 2016, the Company recognized a reversal of $0.4 million and an annual expense of $13.2 million (2015 – $49.6 million and $49.6 million) in severance costs associated with the organizational realignment.

As part of the Canada Safeway acquisition, management had committed to achieving $200.0 million annual run rate in synergies related to the integration of the businesses. For the 14 and 53 weeks ended May 7, 2016, synergies of $79.6 million and $242.3 million (2015 – $46.1 million and $145.0 million) were realized. The Company fully expects to continue to realize its synergy run rates through the end of the three-year commitment, in November 2016. The Company will continue to focus on cost reduction programs across the entire organization.

(1) The following represents forward-looking information described under the "Forward-Looking Information" section of this MD&A.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

Manufacturing Sales Adjustments[1]

The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement, long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this asset purchase agreement, should actual purchases for the calendar year ending 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume-driven formula. Given the operating results experienced in the first two quarters of fiscal 2016, management believed that purchases in calendar year 2016 were unlikely to meet the minimum volume requirements and, accordingly, recorded a provision of $39.7 million to reflect the estimated adjustment to the sales price. During the fourth quarter of fiscal 2016, as a result of continuing challenges in the West business unit, management updated its initial estimate of expected purchases for calendar year 2016. The updated estimate resulted in an additional provision of $31.2 million being recorded, increasing the total provision to $70.9 million. This provision continues to be monitored and updated for any changes to estimated calendar year 2016 purchase volumes. The actual sales price adjustment could vary significantly from this estimate.

Upon finalization of the purchase price adjustment, the minimum volume requirements for the remainder of the long-term supply agreements will be determined. Management does not expect there to be future financial exposure associated with the long-term supply agreements.

Real Estate Divestitures

During fiscal 2016, Sobeys sold nine (2015 – 22) properties and leased back six (2015 – 22), and also sold equipment. Total proceeds from these transactions were $115.7 million (2015 – $61.6 million), resulting in a pre-tax gain of $23.3 million (2015 – $24.9 million).

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land owned by Empire. Crombie REIT will also invest approximately $58.8 million in renovations or expansions of 10 Sobeys retail locations already in Crombie REIT's portfolio. In addition to the cash, Crombie REIT will issue to Sobeys approximately $93.4 million in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. Sobeys will subsequently sell its Class B LP units to Empire on a tax deferred basis. Net cash proceeds to Sobeys from these transactions will be approximately $324.6 million, resulting in a nominal pre-tax gain, which will be used to repay senior unsecured notes coming due. The transaction was approved on June 28, 2016 by the unitholders of Crombie REIT, excluding Empire and its affiliates, and is subject to regulatory approval.

Subsequent to May 7, 2016, Sobeys sold and leased back a property from a third party. Cash proceeds received on the sale was $24.0 million, resulting in a pre-tax gain of $1.1 million.

Share Split

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

Other Items

The following list includes other significant items that have impacted the financial results of the Company for the 53 weeks ended May 7, 2016 and their comparative periods:

- On June 21, 2015, the transaction to purchase certain assets and select liabilities of Co-op Atlantic's food and fuel business was closed. This acquisition of Co-op Atlantic and the associated long-term supply and franchise agreements has increased sales during the year ended May 7, 2016;
- Efficiencies related to the distribution centre restructuring continue to be identified and costs were incurred of $2.2 million and $7.9 million for the 14 and 53 weeks ended May 7, 2016 (2015 – $53.4 million and $53.4 million);

(1) The following represents forward-looking information described under the "Forward-Looking Information" section of this MD&A.

- As of May 7, 2016 there have been 45 store closures, 42 in fiscal 2015 and three in fiscal 2016; representing 1.4 million square feet since Sobeys completed a detailed review of its network in the fourth quarter of fiscal 2014. During the fourth quarter of fiscal 2016, management completed a thorough review of the outstanding provision related to this initiative which resulted in a reversal of $13.9 million (2015 – $9.8 million and $17.4 million) in restructuring costs. The reversals were mainly due to the decision of management to continue operating three sites, favourable terms being negotiated on lease terminations and sublease arrangements and higher than anticipated proceeds on the disposition of store equipment. The net closures had a negative impact on total sales for the 14 and 53 weeks ended May 7, 2016 when compared to the same periods in the prior year;
- In fiscal 2016, Sobeys purchased a former Target Canada Co. Warehouse in Rocky View, Alberta for $50.0 million. This facility is under construction to be retro-fitted for automation and when renovations are complete, it will have the capacity to efficiently distribute dry grocery products to stores in Alberta, Saskatchewan and part of Manitoba; and
- During the fourth quarter of fiscal 2015, a one-time inventory adjustment of $30.5 million occurred, due to revising certain estimates and assumptions in the determination of cost of retail inventories.

Investments and Other Operations

Empire's Investments and other operations segment, as of May 7, 2016, specifically included:

1. A 41.5 percent (40.2 percent fully diluted) equity accounted interest in Crombie REIT, an open-ended Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 261 retail and office properties across Canada, comprising approximately 17.1 million square feet with a strategy to own and operate a portfolio of high quality grocery and drug store anchored shopping centres and freestanding stores primarily in Canada's top 36 markets; and
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 39.0 percent equity accounted interest in GDC Investments 4, L.P., a 42.1 percent equity accounted interest in GDC Investments 6, L.P., a 39.0 percent equity accounted interest in GDC Investments 7, L.P., a 43.7 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar").

STRATEGIC DIRECTION

Management's primary objective is to maximize the long-term sustainable value of Empire through enhancing the worth of the Company's net assets. This is accomplished through direct ownership and equity participation in businesses that management understands and believes to have the potential for long-term sustainable growth and profitability, principally Food retailing and related real estate.

The Company focuses on its core strengths in Food retailing and related real estate by continuing to direct its energy and capital towards growing long-term sustainable value through cash flow, income growth and cost reductions. While our core businesses are well established and profitable in their own right, they also offer Empire geographical diversification across Canada, which is considered by management to be a source of strength. Together, our core businesses reduce Empire's overall risk and volatility, thereby contributing to greater consistency in consolidated earnings growth over the long term. Going forward, the Company intends to continue to direct its resources towards the most promising opportunities within these core businesses in order to maximize long-term shareholder value.

In carrying out the Company's strategic direction, management defines its role as having four fundamental responsibilities: first, to support the development and execution of sound strategic plans for each of its operating companies; second, to regularly monitor the development and the execution of business plans within each operating company; third, to ensure that Empire is well governed as a public company; and fourth, to prudently manage its capital in order to augment the growth in its core operating businesses.

OUTLOOK

Empire remains committed to supporting Sobeys' purpose to help Canadians *Eat Better, Feel Better and Do Better* while also strengthening our related real estate investments. Sobeys will continue to invest in infrastructure, productivity improvements and the harmonization of processes with the expressed intention of building a healthy and sustainable retail business. To advance this purpose in fiscal 2017, Sobeys will continue to rollout new Sobeys *extra* and IGA *extra* concept stores through constructing new stores and renovating existing stores within markets where we can deliver a differentiated experience. The new concept stores across the country continue to resonate well with consumers and yield significantly higher same-store sales growth compared to our conventional banners and formats. Management is also shifting its focus from the Canada Safeway acquisition synergy initiatives to a coast to coast cost stewardship aimed at harmonizing processes and reducing costs.

Our fiscal 2016 results were significantly impacted by integration and operational challenges in our Safeway banner. These challenges were amplified by a difficult economic environment in Western Canada. Going forward, we plan to stabilize our West business unit through:

- Address the structural changes in customer behaviour with innovative, sustainable pricing strategies which includes rolling out the *Simplified Buy & Sell* and *Relevant Pricing* initiatives which are aimed at not only restructuring store pricing structure but also how we source inventories and do business with our suppliers. This will enable better category management and ultimately improve shelf price competitiveness;
- Accelerate capital investment across our Western Canada business in the coming quarters;
- Remain focused on driving efficiencies in our distribution and logistics network in Western Canada; and
- Reduce marketing costs and leverage economies of scale for promotional and loyalty activities through banner rationalization in Western Canada.

RESULTS OF FOURTH QUARTER OPERATIONS

Consolidated Operating Results

The following table is a review of Empire's consolidated financial performance for the 14 weeks ended May 7, 2016 compared to the 13 weeks ended May 2, 2015.

($ in millions, except per share amounts)	14 Weeks Ended May 7, 2016	13 Weeks Ended May 2, 2015[1]	$ Change	% Change
Sales	**$ 6,283.2**	$ 5,770.5	$ 512.7	8.9%
Gross profit[2][3]	**1,546.2**	1,455.9	90.3	6.2%
EBITDA[3]	**(1,047.2)**	236.3	(1,283.5)	(543.2)%
Adjusted EBITDA[3]	**269.6**	339.3	(69.7)	(20.5)%
Operating (loss) income	**(1,160.2)**	115.9	(1,276.1)	(1,101.0)%
Finance costs, net	**36.3**	34.3	2.0	5.8%
Income tax (recovery) expense	**(256.7)**	22.9	(279.6)	(1,221.0)%
Non-controlling interest	**2.8**	3.3	(0.5)	(15.2)%
Net (loss) earnings[4]	**(942.6)**	55.4	(998.0)	(1,801.4)%
Adjusted net earnings[3][4]	**95.3**	136.7	(41.4)	(30.3)%
Basic earnings per share				
Net (loss) earnings[4][5]	**$ (3.47)**	$ 0.20	$ (3.67)	
Adjusted net earnings[3][4]	**$ 0.35**	$ 0.49	$ (0.14)	
Basic weighted average number of shares outstanding (in millions)	**271.7**	277.0		
Diluted earnings per share				
Net (loss) earnings[4][5]	**$ (3.47)**	$ 0.20	$ (3.67)	
Adjusted net earnings[3][4]	**$ 0.35**	$ 0.49	$ (0.14)	
Diluted weighted average number of shares outstanding (in millions)	**271.7**	277.5		
Dividend per share	**$ 0.10**	$ 0.09		

(1) Amounts have been reclassified to correspond to the current presentation on the consolidated statement of (loss) earnings.
(2) Gross profit amounts and corresponding ratios are calculated using the Food retailing segment results.
(3) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(4) Net of non-controlling interest.
(5) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

(% of sales)	**14 Weeks Ended May 7, 2016**	13 Weeks Ended May 2, 2015
Gross profit	**24.6%**	25.2%
EBITDA	**(16.7)%**	4.1%
Adjusted EBITDA	**4.3%**	5.9%
Operating (loss) income	**(18.5)%**	2.0%
Net (loss) earnings[1]	**(15.0)%**	1.0%
Adjusted net earnings[1]	**1.5%**	2.4%

(1) Net of non-controlling interest.

Sales

All sales are generated by the Food retailing segment.

The increase in sales for the 14 weeks ended May 7, 2016 was primarily the result of:

- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million or 8.0 percentage points of the 8.9 percent increase in Sobeys' sales;
- Food inflation; and
- The Co-op Atlantic acquisition and the associated long-term supply and franchise agreements.

This increase was largely offset by:

- The continued negative impact of merchandising and promotional strategies in Western Canada;
- The soft sales trend in most of the store network;
- The economic downturn in areas that have been impacted by decreasing oil prices; and
- The decline in oil prices impacting fuel sales.

During the 14 weeks ended May 7, 2016, same-store sales in the Food retailing segment decreased 1.8 percent from the same period last year. Excluding the negative impact of fuel sales and the retail West business unit, same-store sales would have increased 0.2 percent.

Gross Profit

The decrease in gross margin during the 14 weeks ended May 7, 2016 was a result of the factors impacting sales above. Gross margin was also impacted by the following factors:

- A highly promotional environment;
- Synergies related to the Canada Safeway acquisition, store divestitures and network rationalization; and
- Continued competitive intensity.

EBITDA

EBITDA decreased in the 14 weeks ended May 7, 2016, largely due to impairments recorded for goodwill and long-lived assets. This was partially offset by the previously mentioned factors affecting sales, mainly the additional week of operations, and reduced expenses for variable components of compensation, including stock-based awards.

($ in millions)	14 Weeks Ended May 7, 2016	13 Weeks Ended May 2, 2015[1]	$ Change
EBITDA	$ (1,047.2)	$ 236.3	$ (1,283.5)
Adjustments:			
Impairments of goodwill and long-lived assets	1,296.8	–	
Loss (gain) on disposal of manufacturing facilities	32.1	(20.7)	
Network rationalization reversals	(13.9)	(9.8)	
Distribution centre restructuring	2.2	53.4	
Organizational realignment costs	(0.4)	49.6	
Inventory adjustment	–	30.5	
	1,316.8	103.0	1,213.8
Adjusted EBITDA	$ 269.6	$ 339.3	$ (69.7)

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.

Operating Loss

The following table presents the breakdown of operating loss between the Food retailing segment and the Investment and other operations segment.

($ in millions)	14 Weeks Ended May 7, 2016	13 Weeks Ended May 2, 2015[1]	$ Change
Consolidated operating (loss) income			
Sobeys contribution	$ (1,184.9)	$ 86.3	$ (1,271.2)
Investment and other operations			
Crombie REIT[2]	18.1	7.0	11.1
Real estate partnerships[3]	2.8	11.1	(8.3)
Other operations, net of corporate expenses	3.8	11.5	(7.7)
	24.7	29.6	(4.9)
	$ (1,160.2)	$ 115.9	$ (1,276.1)

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.
(2) 41.5 percent equity accounted interest in Crombie REIT (May 2, 2015 – 41.5 percent interest).
(3) Interests in Genstar.

For the 14 weeks ended May 7, 2016, Sobeys' contribution to operating loss increased due to the factors affecting sales, gross profit and EBITDA, as discussed previously. Operating income from the Investment and other operations segment decreased as a result of:

- A decrease in operating income from Genstar due to stronger operational results in fiscal 2015; and
- A decrease in operating income from other operations, net of corporate expenses, primarily as a result of dilution losses on Genstar in fiscal 2016.

These decreases were partially offset by an increase in operating income from Crombie REIT as a result of a group of properties sold in their first quarter of fiscal 2016.

Finance Costs

For the fourth quarter of fiscal 2016, finance costs, net of finance income, remained consistent with the same period last year. Interest coverage[1] in the fourth quarter decreased to (39.2) times from 3.8 times in the fourth quarter of fiscal 2015 as a result of decreased operating income. Excluding the impairments of goodwill and long-lived assets, interest coverage would have increased to 4.6 times.

Income Taxes

The Company's effective income tax rate for the fourth quarter was 21.5 percent compared to 28.1 percent in the same period last year. The reduction is attributable to the tax consequences arising from the impairments of goodwill and long-lived assets including a component relating to a change in estimate regarding the rate at which the tax consequences from the impairments of goodwill and long-lived assets will be realized. The effective tax rate, excluding the aforementioned adjustments, would have been 23.0 percent and is lower than the prior period due to the presence of certain non-taxable proceeds in the same period last year.

Net Loss

For the 14 weeks ended May 7, 2016, net loss was primarily a result of the previously discussed challenges in the West business unit, including impairments recorded for goodwill and long-lived assets, and the provision related to the manufacturing purchase price adjustment. The decrease was partially offset by the additional week of operations which positively impacted net earnings by approximately $7.4 million and reduced expenses for variable components of compensation, including stock-based awards, in the current year compared to the prior year.

($ in millions, except per share amounts, net of tax)	**14 Weeks Ended May 7, 2016**	13 Weeks Ended May 2, 2015	$ Change
Net (loss) earnings[1]	**$ (942.6)**	$ 55.4	$ (998.0)
EPS[2][3] (fully diluted)	**$ (3.47)**	$ 0.20	$ (3.67)
Adjustments[4]:			
Impairments of goodwill and long-lived assets	**1,016.3**	–	
Loss (gain) on disposal of manufacturing facilities	**25.6**	(14.7)	
Network rationalization reversals	**(10.1)**	(7.2)	
Intangible amortization associated with the Canada Safeway acquisition	**4.8**	4.9	
Distribution centre restructuring	**1.6**	39.1	
Organizational realignment costs	**(0.3)**	36.2	
Inventory adjustment	**–**	23.0	
	1,037.9	81.3	956.6
Adjusted net earnings[1]	**$ 95.3**	$ 136.7	$ (41.4)
Adjusted EPS[2] (fully diluted)	**$ 0.35**	$ 0.49	$ (0.14)
Diluted weighted average number of shares outstanding (in millions)	**271.7**	277.5	

(1) Net of non-controlling interest.
(2) Earnings per share ("EPS").
(3) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.
(4) All adjustments are net of income taxes.

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

CONSOLIDATED OPERATING RESULTS

($ in millions, except per share amounts)	**53 Weeks Ended May 7, 2016**	52 Weeks Ended May 2, 2015[1]	52 Weeks Ended May 3, 2014[1]	2016 Compared to 2015 $ Change	2016 Compared to 2015 % Change
Sales	**$ 24,618.8**	$ 23,928.8	$ 20,957.8	$ 690.0	2.9%
Gross profit	**5,957.6**	5,962.1	5,016.5	(4.5)	(0.1)%
EBITDA	**(1,944.7)**	1,224.9	753.5	(3,169.6)	(258.8)%
Adjusted EBITDA	**1,161.4**	1,321.9	1,052.8	(160.5)	(12.1)%
Operating (loss) income	**(2,418.5)**	742.4	326.7	(3,160.9)	(425.8)%
Finance costs, net	**137.4**	155.1	131.4	(17.7)	(11.4)%
Income tax (recovery) expense	**(441.3)**	150.4	36.3	(591.7)	(393.4)%
Non-controlling interest	**16.4**	17.9	8.0	(1.5)	(8.4)%
Net (loss) earnings from continuing operations[2]	**(2,131.0)**	419.0	151.0	(2,550.0)	(608.6)%
Net earnings from discontinued operations	**–**	–	84.4	–	–
Net (loss) earnings[2]	**(2,131.0)**	419.0	235.4	(2,550.0)	(608.6)%
Adjusted net earnings[2]	**410.2**	511.0	390.6	(100.8)	(19.7)%
Basic earnings per share					
Net (loss) earnings from continuing operations[2][3]	**$ (7.78)**	$ 1.51	$ 0.63	$ (9.29)	
Net earnings from discontinued operations[3]	**$ –**	$ –	$ 0.35	$ –	
Net (loss) earnings[2][3]	**$ (7.78)**	$ 1.51	$ 0.98	$ (9.29)	
Adjusted net earnings[2]	**$ 1.50**	$ 1.84	$ 1.63	$ (0.34)	
Basic weighted average number of shares outstanding (in millions)	**273.9**	277.0	240.1		
Diluted earnings per share					
Net (loss) earnings from continuing operations[2][3]	**$ (7.78)**	$ 1.51	$ 0.63	$ (9.29)	
Net earnings from discontinued operations[3]	**$ –**	$ –	$ 0.35	$ –	
Net (loss) earnings[2][3]	**$ (7.78)**	$ 1.51	$ 0.98	$ (9.29)	
Adjusted net earnings[2]	**$ 1.50**	$ 1.84	$ 1.62	$ (0.34)	
Diluted weighted average number of shares outstanding (in millions)	**274.0**	277.2	240.6		
Dividend per share	**$ 0.40**	$ 0.36	$ 0.35		

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.
(2) Net of non-controlling interest.
(3) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

(% of sales)	**53 Weeks Ended May 7, 2016**	52 Weeks Ended May 2, 2015	52 Weeks Ended May 3, 2014
Gross profit	**24.2%**	24.9%	23.9%
EBITDA	**(7.9)%**	5.1%	3.6%
Adjusted EBITDA	**4.7%**	5.5%	5.0%
Operating (loss) income	**(9.8)%**	3.1%	1.6%
Net (loss) earnings from continuing operations[1]	**(8.7)%**	1.8%	0.7%
Adjusted net earnings[1]	**1.7%**	2.1%	1.9%

(1) Net of non-controlling interest.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of the Company's consolidated financial performance for the 53 weeks ended May 7, 2016 compared to the 52 weeks ended May 2, 2015.

The financial performance of each of the Company's segments (Food retailing and Investments and other operations) is discussed in detail in the section entitled "Financial Performance by Segment" of this MD&A.

The West business unit continues to face operational and integration challenges in what remains a very competitive retail food environment, for the Company. The Company has experienced soft sales during fiscal 2016 and continues to drive for growth with the ongoing roll out of the *Better Food for All* strategy which continues to resonate with more customers. Sobeys is focused on improving the execution at the store level to ensure customers are having the best food shopping experience.

The Company is also focused on cost reduction programs across the organization, seeking out areas where costs can be reduced without impacting the offering being made to customers.

Sales

All sales are generated by the Food retailing segment.

The increase in sales for the 53 weeks ended May 7, 2016 was primarily the result of:

- Food inflation;
- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million or 1.9 percentage points of the 2.9 percent increase in Sobeys' sales; and
- The Co-op Atlantic acquisition and the associated long-term supply and franchise agreements.

This increase was partially offset by:

- Significant integration, operational and reorganizational challenges affecting the West business unit;
- The continued negative impact of merchandising and promotional strategies in Western Canada;
- The economic downturn in areas that have been impacted by decreasing oil prices;
- Store closures associated with the network rationalization;
- The decline in oil prices impacting fuel sales; and
- The lost wholesale food volumes resulting from the loss of wholesale customers as discussed in previous quarters.

During the 53 weeks ended May 7, 2016, same-store sales in the Food retailing segment decreased 0.2 percent from the same period last year. Excluding the negative impact of fuel sales and the retail West business unit, same-store sales would have increased 1.5 percent.

EBITDA

Consolidated EBITDA decreased in the 53 weeks ended May 7, 2016, largely due to impairments recorded for goodwill and long-lived assets, and the provision related to the manufacturing purchase price adjustment. This was partially offset by the previously mentioned factors affecting sales and reduced expenses for variable components of compensation, including stock-based awards.

($ in millions)	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015[1]	$ Change
EBITDA	**$ (1,944.7)**	$ 1,224.9	$ (3,169.6)
Adjustments:			
Impairments of goodwill and long-lived assets	**3,027.1**	–	
Loss (gain) on disposal of manufacturing facilities	**71.8**	(19.1)	
Network rationalization reversals	**(13.9)**	(17.4)	
Organizational realignment costs	**13.2**	49.6	
Distribution centre restructuring	**7.9**	53.4	
Inventory adjustment	**–**	30.5	
	3,106.1	97.0	3,009.1
Adjusted EBITDA	**$ 1,161.4**	$ 1,321.9	$ (160.5)

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.

Operating Loss

For the 53 weeks ended May 7, 2016, operating loss increased due to the factors affecting EBITDA, partially offset by sales, as discussed previously.

Finance Costs

During fiscal 2016, finance costs, net of finance income, decreased primarily due to the debt repayments in fiscal 2015. Interest coverage decreased to (21.2) times from 5.4 times in the prior year, as a result of decreased operating income. Excluding the impairments of goodwill and long-lived assets, interest coverage would have been 5.3 times.

Income Taxes

The effective income tax rate for the 53 weeks ended May 7, 2016 decreased to 17.3 percent in comparison to 25.6 percent in the 52 weeks ended May 2, 2015. The reduction is attributable to the tax consequences arising from the impairments of goodwill and long-lived assets. The effective income tax rate, excluding the impact of the impairments, would have been 27.0 percent compared to 25.6 percent in the prior year. This increase is primarily attributed to an increase in statutory tax rates and the partial non-deductibility of certain provisions.

Net Loss

For the 53 weeks ended May 7, 2016, net loss was primarily the result of the previously discussed challenges in the West business unit, including impairments recorded for goodwill and long-lived assets, and the provision related to the manufacturing purchase price adjustment. The decrease was partially offset by the additional week of operations which positively impacted net earnings by approximately $7.4 million and reduced expenses for variable components of compensation, including stock-based awards, in the current year compared to the prior year.

($ in millions, except per share amounts, net of tax)	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015	$ Change
Net (loss) earnings[1]	**$ (2,131.0)**	$ 419.0	$ (2,550.0)
EPS[2] (fully diluted)	**$ (7.78)**	$ 1.51	$ (9.29)
Adjustments[3]:			
Impairments of goodwill and long-lived assets	**2,459.4**	–	
Loss (gain) on disposal of manufacturing facilities	**57.4**	(14.1)	
Intangible amortization associated with the Canada Safeway acquisition	**19.1**	20.5	
Network rationalization reversals	**(10.1)**	(12.7)	
Organizational realignment costs	**9.6**	36.2	
Distribution centre restructuring	**5.8**	39.1	
Inventory adjustment	**–**	23.0	
	2,541.2	92.0	2,449.2
Adjusted net earnings[1]	**$ 410.2**	$ 511.0	$ (100.8)
Adjusted EPS (fully diluted)	**$ 1.50**	$ 1.84	$ (0.34)
Diluted weighted average number of shares outstanding (in millions)	**274.0**	277.2	

(1) Net of non-controlling interest.

(2) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

(3) All adjustments are net of income taxes.

FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

The following is a review of Empire's Food retailing segment's financial performance for the 53 weeks ended May 7, 2016 compared to the 52 weeks ended May 2, 2015 and May 3, 2014.

The following financial information is Sobeys' contribution to Empire as the amounts are net of consolidation adjustments, which include a purchase price allocation from the privatization of Sobeys.

($ in millions)	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015	52 Weeks Ended May 3, 2014[1]	2016 Compared to 2015	
				$ Change	% Change
Sales	**$ 24,618.8**	$ 23,928.8	$ 20,961.5	$ 690.0	2.9%
Gross profit	**5,957.6**	5,962.5	5,016.1	(4.9)	(0.1)%
EBITDA	**(2,036.0)**	1,121.9	717.9	(3,157.9)	(281.5)%
Adjusted EBITDA	**1,070.1**	1,218.9	1,005.6	(148.8)	(12.2)%
Operating (loss) income	**(2,509.2)**	639.9	291.6	(3,149.1)	(492.1)%
Net (loss) earnings[2]	**(2,193.3)**	343.5	121.8	(2,536.8)	(738.5)%
Adjusted net earnings[2]	**347.9**	435.5	353.3	(87.6)	(20.1)%

(1) Amounts have been reclassified to correspond to the current presentation on the consolidated statement of (loss) earnings.

(2) Net of non-controlling interest.

To assess its financial performance and condition, Sobeys' management monitors a set of financial measures which evaluate sales growth, profitability and financial condition. The primary financial performance and condition measures reported by Sobeys are set out below.

($ in millions)	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015[1]	52 Weeks Ended May 3, 2014[1][2]
Sales growth	**2.9%**	14.2%	20.8%
Same-store sales growth	**(0.2)%**	1.4%	0.0%
Return on equity[3]	**(55.4)%**	7.1%	3.1%
Funded debt to total capital[3]	**45.9%**	31.5%	41.6%
Funded debt to EBITDA[3]	**(1.1)x**	2.0x	4.7x
Property, equipment and investment property purchases[4]	**$ 616.2**	$ 497.2	$ 553.8

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows and the consolidated balance sheets.
(2) Amounts have been restated as a result of the finalized purchase price allocation related to the Canada Safeway acquisition; see the "Business Acquisition" section of the fiscal 2015 annual MD&A.
(3) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(4) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

Excluding the impact of goodwill and long-lived asset impairments in fiscal 2016, return on equity would have been 5.4 percent and funded debt to EBITDA would have been 2.3 times.

Sales

The increase in sales for the 53 weeks ended May 7, 2016 was primarily the result of:

- Food inflation;
- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million or 1.9 percentage points of the 2.9 percent increase in Sobeys' sales; and
- The Co-op Atlantic acquisition and the associated long-term supply and franchise agreements.

This increase was partially offset by:

- Significant integration, operational and reorganizational challenges affecting the West business unit;
- The continued negative impact of merchandising and promotional strategies in Western Canada;
- The economic downturn in areas that have been impacted by decreasing oil prices;
- Store closures associated with the network rationalization;
- The decline in oil prices impacting fuel sales; and
- The lost wholesale food volumes resulting from the loss of wholesale customers as discussed in previous quarters.

During the 53 weeks ended May 7, 2016, same-store sales decreased 0.2 percent from the same period last year. Excluding the negative impact of fuel sales and the retail West business unit, same-store sales would have increased 1.5 percent.

Gross Profit

The decrease in gross margin during the 53 weeks ended May 7, 2016 continued to be the result of the ongoing impact that merchandising and promotional programs had on customers, and the low reception of these strategies in Western Canada continue to have a downward impact on gross margin. Gross profit was also impacted negatively by continuity program investment and inventory valuation adjustments. In addition, increased promotional activity and a difficult economic environment mainly in the Alberta and Saskatchewan markets, resulted in gross margin erosion. These challenges are being addressed with high priority and mitigation plans continue to be put into place. The significant organizational, training, and education gaps related to IT system, process integration and reorganizational changes identified in the "Significant Items" section of this MD&A, also continue to be aggressively addressed.

In addition, gross profit and gross margin continued to be impacted during the 53 weeks ended May 7, 2016 by the factors impacting sales, mainly the additional week of operations, as well as:

- Synergies related to the Canada Safeway acquisition, store divestitures and network rationalization;
- A weaker CAD relative to the United States dollar ("USD") which affected the CAD cost of USD purchases;
- A highly promotional environment; and
- Continued competitive intensity.

For the 53 weeks ended May 7, 2016, the decline in the price of oil, which had an impact on fuel sales, did not have a direct material impact on gross profit.

EBITDA

Sobeys' contributed EBITDA decreased in the 53 weeks ended May 7, 2016, largely due to impairments recorded for goodwill and long-lived assets, and the provision related to the manufacturing purchase price adjustment. This was partially offset by the previously mentioned factors affecting sales and reduced expenses for variable components of compensation, including stock-based awards.

($ in millions)	**53 Weeks Ended May 7, 2016**	52 Weeks Ended May 2, 2015	$ Change
EBITDA	**$ (2,036.0)**	$ 1,121.9	$ (3,157.9)
Adjustments:			
Impairments of goodwill and long-lived assets	**3,027.1**	–	
Loss (gain) on disposal of manufacturing facilities	**71.8**	(19.1)	
Network rationalization reversals	**(13.9)**	(17.4)	
Organizational realignment costs	**13.2**	49.6	
Distribution centre restructuring	**7.9**	53.4	
Inventory adjustment	**–**	30.5	
	3,106.1	97.0	3,009.1
Adjusted EBITDA	**$ 1,070.1**	$ 1,218.9	$ (148.8)

Operating Loss

For the 53 weeks ended May 7, 2016, operating loss increased due to the factors affecting EBITDA, partially offset by sales, as discussed previously.

Net Loss

For the 53 weeks ended May 7, 2016, net loss was primarily impacted by the previously discussed challenges in the West business unit, including impairments recorded for goodwill and long-lived assets, and the provision related to the manufacturing purchase price adjustment. The decrease was partially offset by the additional week of operations which positively impacted net earnings by approximately $7.4 million and reduced expenses for variable components of compensation, including stock-based awards, in the current year compared to the prior year.

($ in millions, except per share amounts, net of tax)	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015	$ Change
Net (loss) earnings[1]	**$ (2,193.3)**	$ 343.5	$ (2,536.8)
Adjustments[2]:			
Impairments of goodwill and long-lived assets	**2,459.4**	–	
Loss (gain) on disposal of manufacturing facilities	**57.4**	(14.1)	
Intangible amortization associated with the Canada Safeway acquisition	**19.1**	20.5	
Network rationalization reversals	**(10.1)**	(12.7)	
Organizational realignment costs	**9.6**	36.2	
Distribution centre restructuring	**5.8**	39.1	
Inventory adjustment	**–**	23.0	
	2,541.2	92.0	2,449.2
Adjusted net earnings[1]	**$ 347.9**	$ 435.5	$ (87.6)

(1) Net of non-controlling interest.
(2) All adjustments are net of income taxes.

Investments and Other Operations

($ in millions)	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015[1]	$ Change
Operating income			
Crombie REIT[2]	**$ 38.9**	$ 30.6	$ 8.3
Real estate partnerships[3]	**46.7**	54.7	(8.0)
Other operations, net of corporate expenses	**5.1**	17.2	(12.1)
	$ 90.7	$ 102.5	$ (11.8)

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.
(2) 41.5 percent equity accounted interest in Crombie REIT (May 2, 2015 – 41.5 percent interest).
(3) Interests in Genstar.

At May 7, 2016, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	May 7, 2016			May 2, 2015		
($ in millions)	**Fair Value**	**Carrying Value**	**Unrealized Gain**	Fair Value	Carrying Value	Unrealized Gain
Investment in associates						
Crombie REIT[1]	**$ 786.0**	**$ 366.8**	**$ 419.2**	$ 724.3	$ 365.6	$ 358.7
Canadian real estate partnerships[2]	**148.5**	**148.5**	**–**	143.4	143.4	–
U.S. real estate partnerships[2]	**50.2**	**50.2**	**–**	59.3	59.3	–
Investment in joint ventures						
Canadian Digital Cinema Partnership[2]	**9.4**	**9.4**	**–**	9.5	9.5	–
	$ 994.1	**$ 574.9**	**$ 419.2**	$ 936.5	$ 577.8	$ 358.7

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of May 6, 2016.
(2) Assumes fair value equals carrying value.

Operating Income

For the 53 weeks ended May 7, 2016, the decrease in operating income from Investments and other operations can be attributed to:

- A decrease in operating income from other operations, net of corporate expenses, primarily as a result of reversal of deferred gains on properties sold by Crombie REIT in the prior year and dilution losses on Genstar in fiscal 2016; and
- A decrease in operating income from Genstar due to stronger operational results in fiscal 2015.

This decrease was partially offset by an increase in operating income from Crombie REIT as a result of a group of properties sold in their first quarter of fiscal 2016.

QUARTERLY RESULTS OF OPERATIONS

The following table is a summary of selected financial information from the Company's unaudited interim condensed consolidated financial statements for each of the eight most recently completed quarters:

	Fiscal 2016				Fiscal 2015[1]			
($ in millions, except per share amounts)	**Q4 (14 Weeks) May 7, 2016**	Q3 (13 Weeks) Jan. 30, 2016	Q2 (13 Weeks) Oct. 31, 2015	Q1 (13 Weeks) Aug. 1, 2015	Q4 (13 Weeks) May 2, 2015	Q3 (13 Weeks) Jan. 31, 2015	Q2 (13 Weeks) Nov. 1, 2014	Q1 (13 Weeks) Aug. 2, 2014
Sales	**$ 6,283.2**	$ 6,027.2	$ 6,059.2	$ 6,249.2	$ 5,770.5	$ 5,940.5	$ 5,995.1	$ 6,222.7
EBITDA[2]	**(1,047.2)**	(1,467.9)	256.3	314.1	236.3	322.3	323.8	342.5
Operating (loss) income	**(1,160.2)**	(1,589.8)	136.0	195.5	115.9	203.4	203.7	219.4
Net (loss) earnings[3]	**$ (942.6)**	$ (1,365.7)	$ 68.5	$ 108.8	$ 55.4	$ 123.6	$ 116.9	$ 123.1
Per share information, basic								
Net (loss) earnings[3][4]	**$ (3.47)**	$ (5.03)	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44
Basic weighted average number of shares outstanding (in millions)	**271.7**	271.7	275.2	277.0	277.0	277.0	277.0	277.0
Per share information, diluted								
Net (loss) earnings[3][4]	**$ (3.47)**	$ (5.03)	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44
Diluted weighted average number of shares outstanding (in millions)	**271.7**	271.8	275.5	277.5	277.5	277.2	277.0	277.0

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated statement of (loss) earnings.
(2) EBITDA is reconciled to net (loss) earnings for the current and comparable period in the "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) Net of non-controlling interest.
(4) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

When reviewing financial results for comparable periods:

- The results of the first two quarters of fiscal 2016 show increased sales, but a decrease in operating income and net earnings when compared to the same quarters in fiscal 2015. This was the result of the significant challenges for the organization to adapt to the pervasive changes from the integration of Safeway operations, the continued negative impact of merchandising and promotional strategies for the West business unit, and the provision recorded in the second quarter for manufacturing sales agreements as previously mentioned.

- The results of the third quarter of fiscal 2016 show increased sales, but an operating loss and a net loss when compared to the same quarter in fiscal 2015. This was the result of an impairment charge the Company recorded for long-lived assets of $137.7 million and for goodwill of $1,592.6 million representing the write-down of certain store assets in the Sobeys West operating segment and related goodwill.
- The results of the fourth quarter of fiscal 2016 show increased sales, but an operating loss and a net loss when compared to the same quarter in fiscal 2015. This was the result of impairment charges the Company recorded for long-lived assets of $10.9 million and for goodwill of $1,285.9 million representing the write-down of certain store assets in the Sobeys West operating segment and related goodwill to their recoverable amount. Results for the fourth quarter of 2016 were also impacted by an additional week of operations, as mentioned previously. Results for the fourth quarter of 2015 were impacted by the network rationalization, downward pressure on fuel sales from declining oil prices and Competition Bureau imposed divestitures associated with the Canada Safeway acquisition.

Management has recognized the significant operational challenges faced during fiscal 2016 and their remediation are a top priority for fiscal 2017. Strategies continue to be deployed in order to optimize the execution of our store level offerings, to realize the benefits and efficiencies from our distribution centre restructuring and through continued work on reduction of the Company's cost structure.

Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. The Company does experience some seasonality, as evidenced in the results presented above, in particular during the summer months and over the holidays. The sales, EBITDA, operating (loss) income and net (loss) earnings, net of non-controlling interest, have been influenced by impairments recorded, Safeway operations, one-time adjustments, other investing activities, the competitive environment, cost management initiatives, food price and general industry trends, and by other risk factors as outlined in the "Risk Management" section of this MD&A.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights the major cash flow components for the Company for the relevant periods.

($ in millions)	**14 Weeks Ended May 7, 2016**	13 Weeks Ended May 2, 2015[1]	$ Change	**53 Weeks Ended May 7, 2016**	52 Weeks Ended May 2, 2015[1]	$ Change
Cash flows from operating activities	**$ 244.8**	$ 255.3	$ (10.5)	**$ 896.8**	$ 1,158.1	$ (261.3)
Cash flows (used in) from investing activities	**(176.8)**	285.3	(462.1)	**(622.6)**	159.8	(782.4)
Cash flows used in financing activities	**(97.3)**	(567.5)	470.2	**(305.4)**	(1,451.3)	1,145.9
Decrease in cash and cash equivalents	**$ (29.3)**	$ (26.9)	$ (2.4)	**$ (31.2)**	$ (133.4)	$ 102.2

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows.

Operations

The cash flows from operating activities for the 14 weeks ended May 7, 2016 were consistent with the same period in the prior year.

During the 53 weeks ended May 7, 2016, cash flows from operating activities decreased mainly as a result of an increase in net loss, for reasons previously discussed, and an increase in the net change in non-cash working capital.

Free Cash Flow

Management uses free cash flow[1] as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities.

($ in millions)	14 Weeks Ended May 7, 2016	13 Weeks Ended May 2, 2015	$ Change	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015	$ Change
Cash flows from operating activities	**$ 244.8**	$ 255.3	$ (10.5)	**$ 896.8**	$ 1,158.1	$ (261.3)
Add: proceeds on disposal of property, equipment and investment property	**11.6**	460.9	(449.3)	**142.5**	781.2	(638.7)
Less: property, equipment and investment property purchases	**(173.9)**	(133.8)	(40.1)	**(616.5)**	(497.2)	(119.3)
Free cash flow	**$ 82.5**	$ 582.4	$ (499.9)	**$ 422.8**	$ 1,442.1	$ (1,019.3)

The decrease in free cash flow for the 14 weeks ended May 7, 2016 was the result of a decrease in proceeds on disposal of property, equipment and investment property mainly due to the divestiture of manufacturing facilities in fiscal 2015.

The decrease in free cash flow for the 53 weeks ended May 7, 2016 was the result of:

- A reduction in cash flows from operating activities as previously discussed;
- A decrease in proceeds on disposal of property, equipment and investment property due to the:
  - Sale leaseback of ten properties to Crombie REIT in fiscal 2015;
  - Sale leaseback of 22 properties to Econo-Malls in fiscal 2015;
  - Divestiture of manufacturing facilities in fiscal 2015; and
  - Divestiture of 11 stores in fiscal 2015 required as a part of the Canada Safeway acquisition.
- An increase in property, equipment and investment property purchases mainly due to the automated distribution centre expansion in Vaughan, Ontario, the acquisition of a former Target warehouse facility in Rocky View, Alberta, and land purchased.

Investment

The increase in cash used in investing activities in the 14 and 53 weeks ended May 7, 2016 was primarily due to the previously discussed reduction of proceeds on disposal of property, equipment and investment property.

The table below outlines the number of stores Sobeys invested in during the 14 and 53 weeks ended May 7, 2016 compared to the 13 and 52 weeks ended May 2, 2015.

# of stores	14 Weeks Ended May 7, 2016	13 Weeks Ended May 2, 2015	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015
Opened/relocated/acquired	**20**	17	**102**	67
Expanded	**3**	3	**18**	9
Rebannered/redeveloped	**1**	2	**22**	14
Closed – normal course of operations	**15**	10	**37**	30
Divested – Competition Bureau imposed	**–**	–	**–**	11
Closed – network rationalization	**1**	4	**3**	42

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

The following table shows Sobeys' square footage changes for the 14 and 53 weeks ended May 7, 2016 by type:

Square feet (in thousands)	**14 Weeks Ended May 7, 2016**	53 Weeks Ended May 7, 2016
Opened	**75**	887
Relocated	**93**	197
Acquired	**31**	168
Expanded	**7**	125
Closed – normal course of operations	**(108)**	(290)
Net change before the impact of the network rationalization	**98**	1,087
Closed – network rationalization	**(32)**	(93)
Net change with the impact of the network rationalization	**66**	994

At May 7, 2016, Sobeys' square footage totalled 38.7 million, a 2.7 percent increase over the 37.7 million square feet operated at May 2, 2015.

Financing

The cash used in financing activities during the 14 weeks ended May 7, 2016 decreased from the same period of fiscal 2015, primarily due to the repayment of the non-revolving, amortizing credit facility ("Acquisition Facility") related to the Canada Safeway acquisition of $485.0 million in the fourth quarter of fiscal 2015.

The decrease in cash used in financing activities during the 53 weeks ended May 7, 2016 was primarily due to a reduction in the repayment of long-term debt of $660.4 million (2015 – $1,635.5 million). In fiscal 2015 the Company paid off $1.4 billion of the Acquisition Facility mainly with proceeds from the divestiture of property and equipment. Cash used in financing activities for the 53 weeks ended May 7, 2016 was also impacted by an increase in the repurchase of Non-Voting Class A shares of $148.1 million (2015 – $ nil) as the Company repurchased 5,365,752 Non-Voting Class A shares under the Normal Course Issuer Bid ("NCIB") in the second quarter of fiscal 2016.

Employee Future Benefit Obligations

For the 53 weeks ended May 7, 2016, the Company contributed $9.3 million (2015 – $8.9 million) to its registered defined benefit pension plans. The Company expects to contribute approximately $10.0 million in fiscal 2017 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

Guarantees and Commitments

The following table presents the Company's commitments and other obligations that will come due over the next five fiscal years as at May 7, 2016.

($ in millions)	2017	2018	2019	2020	2021	Thereafter	Total
Commitments							
Long-term debt[1]	$ 329.8	$ 104.8	$ 510.0	$ 18.5	$ 295.9	$ 1,061.0	$ 2,320.0
Finance lease liabilities[2]	14.7	11.8	9.4	7.8	5.3	27.2	76.2
Third party operating leases, as lessee[3]	246.0	229.8	211.8	195.5	171.5	928.2	1,982.8
Related party operating leases, as lessee[3]	127.5	127.1	122.3	122.0	121.7	1,440.4	2,061.0
Contractual obligations	718.0	473.5	853.5	343.8	594.4	3,456.8	6,440.0
Operating leases, as lessor	(25.6)	(22.3)	(19.8)	(16.6)	(14.7)	(89.8)	(188.8)
Contractual obligations, net	$ 692.4	$ 451.2	$ 833.7	$ 327.2	$ 579.7	$ 3,367.0	$ 6,251.2

(1) Principal debt repayments.
(2) Present value of minimum lease payments (future minimum lease payments less interest).
(3) Net of sub-lease income.

Guarantees

Franchisees and Affiliates

Sobeys is party to a number of franchise and operating agreements as part of its business model. These agreements contain clauses which require the Company to provide support to franchisee and affiliate operators to offset or mitigate retail store losses, reduce store rental payments, minimize the impact of promotional pricing, and assist in covering other store related operating expenses. Not all of the financial support noted above will apply in each instance as the provisions of the agreements vary. The Company will continue to provide financial support pursuant to the franchise and operating agreements in future years.

Sobeys has a guarantee contract under the terms of which, should certain franchisees and affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 million or 9.9 percent (2015 – $7.0 million or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 7, 2016, the amount of the guarantee was $7.0 million (2015 – $7.0 million).

Sobeys has guaranteed certain equipment leases of its franchisees and affiliates. Under the terms of the guarantee should franchisees and affiliates be unable to fulfill their equipment lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $145.0 million on a cumulative basis. Sobeys approves each of the contracts.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain franchisees and affiliates for the purchase and installation of equipment. Under the terms of the contract, should franchisees and affiliates be unable to fulfill their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 million or 10.0 percent (2015 – $6.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain franchisees and affiliates. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SEs. As at May 7, 2016, the amount of the guarantee was $6.0 million (2015 – $6.0 million).

Commitments

Finance Lease Liabilities

During fiscal 2016, the Company increased its finance lease obligation by $3.7 million (2015 – $5.8 million) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

Operating Leases, as Lessee

The Company leases various retail stores, distribution centres, offices, and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options, and bases on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 7, 2016 is approximately $4,043.8 million. This reflects a gross lease obligation of $4,965.6 million reduced by expected sub-lease income of $921.8 million.

The Company recorded $542.3 million (2015 – $517.4 million) as an expense for minimum lease payments for the year ended May 7, 2016 in the consolidated statements of (loss) earnings. The expense was offset by sub-lease income of $168.2 million (2015 – $161.8 million), and a further $12.3 million (2015 – $11.5 million) of expense was recognized for contingent rent.

Operating Leases, as Lessor

The Company also leases most investment properties under operating leases. These leases have varying terms, escalation clauses, renewal options and bases on which contingent rent is receivable.

Rental income for the year ended May 7, 2016 was $31.4 million (2015 – $29.7 million) and was recognized as other (loss) income, net in the consolidated statements of (loss) earnings. In addition, the Company recognized $0.3 million of contingent rent for the year ended May 7, 2016 (2015 – $1.7 million).

Other

At May 7, 2016, the Company was contingently liable for letters of credit issued in the aggregate amount of $66.6 million (2015 – $69.8 million).

Sobeys, through its subsidiaries, has guaranteed the payment of obligations under certain commercial development agreements. As at May 7, 2016, Sobeys has guaranteed $43.5 million in obligations related to these agreements.

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys guaranteed to the landlord the performance, by SERCA Foodservice Inc., of all its obligations under the lease. The remaining term of the lease is four years with an aggregate obligation of $13.4 million (2015 – $16.5 million). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)	May 7, 2016	May 2, 2015[1]	May 3, 2014[1][2]
Shareholders' equity, net of non-controlling interest	**$ 3,621.0**	$ 5,983.8	$ 5,700.5
Book value per common share[3]	**$ 13.33**	$ 21.60	$ 20.59
Long-term debt, including current portion	**$ 2,352.9**	$ 2,284.1	$ 3,493.8
Funded debt to total capital[3]	**39.4%**	27.6%	38.0%
Net funded debt to net total capital[3]	**36.6%**	24.9%	35.0%
Funded debt to EBITDA[3][4]	**(1.2)x**	1.9x	4.6x
EBITDA to interest expense[3][4]	**(17.1)x**	8.9x	5.8x
Current assets to current liabilities	**1.0x**	0.9x	1.0x
Total assets	**$ 9,087.5**	$ 11,460.7	$ 12,236.6
Total non-current financial liabilities	**$ 2,696.8**	$ 2,942.0	$ 3,929.6

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows and the consolidated balance sheets.
(2) Amounts have been restated as a result of the finalized purchase price allocation related to the Canada Safeway acquisition; see the "Business Acquisition" section of the fiscal 2015 annual MD&A.
(3) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(4) Ratios for May 3, 2014 exclude EBITDA and interest expense relating to discontinued operations.

The ratio of funded debt to total capital increased to 39.4 percent at May 7, 2016 from 27.6 percent at May 2, 2015.

The funded debt to EBITDA ratio decreased to (1.2) times compared to 1.9 times at May 2, 2015. Excluding the impact of goodwill and long-lived asset impairments, the funded debt to EBITDA ratio would have been 2.2 times. The decrease in the EBITDA to interest expense coverage ratio ((17.1) times versus 8.9 times at May 2, 2015) was the result of lower trailing 12-month interest expense ($114.0 million versus $137.3 million at May 2, 2015) and a lower trailing 12-month EBITDA ($(1,944.7) million versus $1,224.9 million at May 2, 2015). Excluding the impact of goodwill and long-lived asset impairments, the EBITDA to interest expense coverage ratio would have been 9.5 times.

The Company's ratio of current assets to current liabilities increased to 1.0 times from 0.9 times at May 2, 2015.

The Company's current credit ratings are BBB (low) with a stable trend from Dominion Bond Rating Service ("DBRS") and BBB- with a negative outlook from Standard and Poor's ("S&P").

The Company believes that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short-term and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring various sources of funds are diversified by term to maturity and source of credit.

The Company has provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 14 and 53 weeks ended May 7, 2016.

For additional disclosure on Empire's long-term debt, see Note 15 of the Company's audited annual consolidated financial statements for the 53 weeks ended May 7, 2016.

Shareholders' Equity

The Company's share capital was comprised of the following on May 7, 2016:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	$ in millions
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	–	$ –
Non-Voting Class A shares, without par value	768,105,849	173,537,901	2,037.8
Class B common shares, without par value, voting	122,400,000	98,138,079	7.3
			$ 2,045.1

The decrease in shareholders' equity, net of non-controlling interest, of $2,362.8 million from fiscal 2015 primarily reflects the decrease in retained earnings from the impairments of goodwill and long-lived assets recorded, along with the Non-Voting Class A share repurchases under the NCIB of $148.1 million and dividends paid of $109.4 million. Book value per common share was $13.33 at May 7, 2016 compared to $21.60 at May 2, 2015.

The Company's share capital on May 7, 2016 compared to the same period in the last fiscal year is shown in the table below.

(Number of Shares)	**53 Weeks Ended May 7, 2016**	52 Weeks Ended May 2, 2015
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**178,862,211**	174,148,452
Issued during period	**41,442**	69,549
Converted from Class B common shares during period	**–**	4,644,210
Repurchase of capital stock	**(5,365,752)**	–
Issued and outstanding, end of period	**173,537,901**	178,862,211
Class B common shares		
Issued and outstanding, beginning of period	**98,138,079**	102,782,289
Issued during period	**–**	–
Converted to Non-Voting Class A shares during period	**–**	(4,644,210)
Total Issued and outstanding, end of period	**98,138,079**	98,138,079

The outstanding options at May 7, 2016 were granted at prices between $17.33 and $30.11 and expire between July 2018 and March 2024 with a weighted average remaining contractual life of 5.89 years. Stock option transactions during fiscal 2016 and 2015 were as follows:

	2016		2015	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**3,364,995**	**$ 24.86**	2,803,098	$ 24.85
Granted	**753,845**	**30.13**	977,967	22.43
Purchased	**–**	**–**	–	–
Exercised	**(135,712)**	**20.09**	(262,722)	17.04
Forfeited	**(327,806)**	**26.90**	(153,348)	22.59
Balance, end of year	**3,655,322**	**$ 25.94**	3,364,995	$ 24.86
Stock options exercisable, end of year	**2,206,342**		694,731	

The 3,655,322 stock options outstanding as at the fiscal year ended May 7, 2016 (May 2, 2015 – 3,364,995) represents 1.3 percent (May 2, 2015 – 1.2 percent) of the outstanding Non-Voting Class A and Class B common shares.

During fiscal 2016, the Company paid common dividends of $109.4 million (2015 – $99.7 million) to its equity holders. This represents a payment of $0.40 per share (2015 – $0.36 per share) for common share holders.

As at June 28, 2016, the Company had Non-Voting Class A and Class B common shares outstanding of 173,537,901, and 98,138,079, respectively, as well as 3,655,322 options to acquire in aggregate 3,655,322 Non-Voting Class A shares.

Normal Course Issuer Bid ("NCIB")

The Board of Directors and senior management of Empire are of the opinion that from time to time the purchase of Non-Voting Class A shares at the prevailing market prices is a worthwhile use of funds and in the best interests of Empire and its shareholders.

Accordingly, on March 12, 2015, the Company filed a notice of intent with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 1,788,584 Non-Voting Class A shares, or 5,365,752 Non-Voting Class A shares post-share split, representing approximately three percent of those outstanding. Purchases commenced on March 17, 2015, and terminated by March 16, 2016. During the second quarter of fiscal 2016, the Company purchased for cancellation 5,365,752 Non-Voting Class A shares which fulfilled the normal course issuer bid. The purchase price was $148.1 million of which $64.8 million of the purchase price was accounted for as a reduction to share capital and the remainder as a reduction to retained earnings.

On March 14, 2016, the Company filed a notice of intent with the TSX to purchase for cancellation up to 5,206,137 Non-Voting Class A shares, representing approximately three percent of those outstanding, subject to obtaining regulatory approval. The purchases will be made through the facilities of the TSX. The price the Company will pay for any such shares will be the market price at the time of acquisition. Purchases commenced on March 17, 2016, and shall terminate not later than March 16, 2017. Empire has not repurchased any Non-Voting Class A shares since the date of notice.

During the year ended May 2, 2015, 4,644,210 Class B common shares were converted into 4,644,210 Non-Voting Class A shares.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange risk and commodity risk. From time to time, the Company utilizes hedging instruments it deems appropriate to mitigate risk exposure and not for speculative purposes. The Company's use of these instruments has not had a material impact on (losses) earnings for the 14 and 53 weeks ended May 7, 2016 or for the comparative period in fiscal 2015.

When the Company, or its subsidiaries, enter into a financial instrument contract, it is exposed to potential credit risk associated with the counterparty of the contract defaulting. To mitigate this risk exposure, the Company monitors the credit worthiness of its various contractual counterparties on an ongoing basis and will take corrective actions it deems appropriate should a counterparty's credit profile change materially.

To mitigate the currency risk associated with some of the Sobeys' Euro purchases, Sobeys has entered into forward currency contracts with staggered maturities to act as a hedge against the effect of the change in the value of the CAD relative to the Euro. During the 14 and 53 weeks ended May 7, 2016, Sobeys recorded an unrealized fair value (loss) gain of $(2.5) million and $4.7 million, respectively, in other comprehensive income related to the effective portion of these contracts.

Sobeys has also entered into a floating-for-floating currency swap with a fixed rate of $1.2775 CAD/USD to mitigate the currency risk associated with a USD denominated variable rate loan. During the 14 and 53 weeks ended May 7, 2016, Sobeys recorded an unrealized fair value (loss) gain of $(1.5) million and $1.3 million, respectively, in other comprehensive income related to the effective portion of this contract.

To mitigate the price risk associated with some of the Sobeys' electricity purchases, Sobeys has entered into sales agreements with an energy marketer to fix the price on a portion of its expected usage. During the 14 and 53 weeks ended May 7, 2016, Sobeys recorded an unrealized fair value gain (loss) of $0.2 million and $(0.7) million, respectively, in other comprehensive income related to the effective portion of these agreements.

Sobeys' amortizing interest rate swap to hedge the interest on a portion of Sobeys' acquisition facility matured on December 31, 2015.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as of May 7, 2016 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third party quoted bid, ask and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates to determine the fair values. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the estimated amount the Company would pay or receive if it were to settle the contracts at the reporting date.

ACCOUNTING STANDARDS AND POLICIES

The audited consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 2, 2015.

Future Accounting Policies

(i) Leases

In January 2016, the IASB issued IFRS 16, "Leases", which will supersede IAS 17, "Leases" and IFRIC 4, "Determining whether an Arrangement contains a Lease". IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15 "Revenue from Contracts with Customers", but the Company does not intend to do so at this time.

(ii) Financial instruments

In July 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establishes an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is applied prospectively. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(iii) Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related Interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time.

(iv) Presentation of financial statements

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing clarifying guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2016 and therefore the Company will apply these amendments in the first quarter of fiscal 2017. The Company does not expect any material impact on its financial statement disclosures as a result of adopting these amendments.

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

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation, provisions, impairments, customer loyalty programs, useful lives of property, equipment, investment property and intangibles for purposes of depreciation and amortization, and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Management regularly evaluates the estimates and assumptions it uses. Actual results could differ from these estimates.

Impairments of goodwill and long-lived assets

Management assesses impairment of non-financial assets such as goodwill, intangible assets, property and equipment, and investment property. In assessing impairment, management estimates the recoverable amount of each asset or CGU based on expected future cash flows. When measuring expected future cash flows, management makes assumptions about future growth of profits which relate to future events and circumstances. Actual results could vary from these estimated future cash flows. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate.

Goodwill is subject to impairment testing on an annual basis. The Company previously performed its annual assessment of goodwill impairment during its first quarter, but is transitioning to complete the assessment in its third quarter to better align with the Company's budgeting process. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are indicators that the recoverable amount of long-lived assets may be less than their carrying amount. As a result of operational challenges faced in Western Canada, primarily under the Safeway banner, and the outcome of the long-lived asset impairment tests, the Company reviewed goodwill for impairment as at January 30, 2016 and May 7, 2016.

Goodwill and long-lived assets were reviewed for impairment by determining the recoverable amount of each CGU or groups of CGUs to which the goodwill or long-lived assets relate. Management estimated the recoverable amount of the CGUs based on the higher of value-in-use ("VIU") and fair value less costs of disposal ("FVLCD"). The VIU calculations are based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future growth of profits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Actual results could vary from these estimates which may cause significant adjustments to the Company's goodwill or long-lived assets in subsequent reporting periods.

Pension Benefit Plans and Other Benefit Plans

The cost of the Company's pension benefits for defined contribution plans are expensed at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation, retirement ages, and expected growth rate of health care costs.

Current market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation.

To the extent that plan amendments increase the obligation related to past service, the Company will recognize a past service cost immediately as an expense.

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income. The key assumptions are disclosed in Note 16 of the Company's financial statements.

Income Taxes

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment. The financial statement carrying values of assets and liabilities are subject to accounting estimates inherent in those balances. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The current and deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

Changes or differences in these estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated balance sheets.

Valuation of Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) estimated inventory provisions associated with vendor allowances and internal charges; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) inventories valued at retail and adjusted to cost. Changes or differences in any of these estimates may result in changes to inventories on the consolidated balance sheets and a charge or credit to operating income in the consolidated statements of (loss) earnings.

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material.

Business Acquisitions

For business acquisitions, the Company applies judgment on the recognition and measurement of assets and liabilities assumed and estimates are utilized to calculate and measure such adjustments. In measuring the fair value of an acquiree's assets and liabilities management uses estimates about future cash flows and discount rates. Any measurement changes upon initial recognition would affect the measurement of goodwill, except for deferred taxes.

Supply Agreements

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

Disclosure Controls and Procedures

Management of the Company, which includes the Chief Executive Officer ("CEO") and Chief Financial & Administrative Officer ("CFAO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As at May 7, 2016, the CEO and CFAO have evaluated the effectiveness of the Company's DC&P. Based on that evaluation, the CEO and CFAO have concluded that the Company's DC&P was effective as at May 7, 2016 and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control Over Financial Reporting

Management of the Company, which includes the CEO and CFAO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission. As at May 7, 2016, the CEO and CFAO have evaluated the effectiveness of the Company's ICFR. Based on that evaluation, the CEO and CFAO have concluded that the Company's ICFR was effective as at May 7, 2016, and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in the Company's ICFR during the period beginning January 31, 2016 and ended May 7, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

RELATED PARTY TRANSACTIONS

The Company has related party transactions with Crombie REIT and key management personnel. The Company holds a 41.5 percent ownership interest in Crombie REIT and accounts for its investment using the equity method.

On May 30, 2014, Crombie REIT closed a bought-deal public offering of units at a price of $13.25 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased approximately $40.0 million of Class B LP units (which are convertible on a one-for-one basis into units of Crombie REIT). Following the conversion of Crombie REIT debentures during fiscal 2015, and accounting for the subscription of Class B LP units, the Company's interest in Crombie REIT decreased from 41.6 to 41.5 percent.

The Company leased certain real property from Crombie REIT during the year at amounts in management's opinion which approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases, which are measured at exchange amounts, totalled approximately $164.9 million (2015 – $136.7 million).

Crombie REIT provides administrative and management services to the Company on a fee for service basis pursuant to a Management Agreement effective January 1, 2016. The Management Agreement replaces the previous arrangement where charges incurred were on a cost recovery basis. The amounts paid in fiscal 2016 were not material.

At May 7, 2016, investments included $24.7 million (2015 – $25.1 million) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of $1.2 million for the year ended May 7, 2016 (2015 – $1.2 million). These amounts are included in finance costs, net in the consolidated statements of (loss) earnings.

During the year ended May 7, 2016, Crombie REIT and a wholly-owned subsidiary of the Company negotiated an extension of a rental income guarantee and put option on a property Crombie REIT acquired from the Company's subsidiary in 2006. The rental income guarantee and put option were originally scheduled to mature in March 2016 and have been extended for a period of five years with either party having the ability to terminate the agreements with written notice.

During the year ended May 7, 2016, Sobeys through its wholly-owned subsidiaries, sold and leased back six properties from Crombie REIT. Cash consideration received for the properties sold was $60.7 million, resulting in a pre-tax gain of $6.5 million, which has been recognized in the consolidated statements of (loss) earnings.

During the second quarter of fiscal 2015, the Company exited a sub-lease agreement with Crombie REIT and incurred a charge of $2.7 million. This charge is included in selling and administrative expenses on the consolidated statements of (loss) earnings.

During the year ended May 2, 2015, Sobeys through its wholly-owned subsidiaries sold ten properties and leased back eight properties from Crombie REIT. Cash consideration received for the properties sold was $105.8 million, resulting in a pre-tax gain of $1.2 million, which has been recognized in the consolidated statements of (loss) earnings. The majority of proceeds received were used to repay bank borrowings.

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and lease back certain properties. See the "Significant Items" section of this MD&A for further information.

Key Management Personnel Compensation

Key management personnel include the Board of Directors and members of the Company's executive team that have authority and responsibility for planning, directing and controlling the activities of the Company.

Key management personnel compensation is comprised of:

($ in millions)	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015
Salary, bonus and other short-term employee benefits	$ 9.6	$ 17.9
Post-employment benefits	1.9	1.3
Termination benefits	1.5	–
Share-based payments	6.1	14.3
	$ 19.1	$ 33.5

Indemnities

The Company has agreed to indemnify its directors, officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

CONTINGENCIES

There are various claims and litigation, with which the Company is involved, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

RISK MANAGEMENT

Through its operating companies and its equity-accounted investments, Empire is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company has adopted an annual enterprise risk management assessment which is overseen by the Company's Executive Committee and reported to the Board of Directors and Committees of the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across the Company.

Competition

Empire's Food retailing business, Sobeys, operates in a dynamic and competitive market. Other national and regional food distribution companies, along with non traditional competitors, such as mass merchandisers and warehouse clubs, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 900 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. A failure to maintain geographic diversification to reduce the effects of localized competition could have an adverse impact on Sobeys' operating margins and results of operations. To successfully compete, Sobeys believes it must be customer and market-driven, be focused on superior execution and have efficient, cost-effective operations. It also believes it must invest in its existing store network, as well as its merchandising, marketing and operational execution, to evolve its strategic platform to better meet the needs of consumers looking for more affordable, better food options. The Company further believes it must invest in merchandising initiatives to better forecast and respond to changing consumer trends. Any failure to successfully execute in these areas could have a material adverse impact on Sobeys' financial results.

Empire's real estate operations, through its investment in Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect their ability to: (i) acquire property in compliance with their investment criteria; (ii) lease space in their properties; and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect the Company's financial results and cash flows. A failure by Crombie REIT to maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties or to maintain strategic relationships with existing and potential tenants to help achieve high occupancy levels at each of its properties could adversely affect the Company.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar holds land for future development, it faces significant competition when looking to acquire new land for future development. To mitigate this risk, Genstar maintains a geographically diverse inventory of well located land for development to alleviate periods of intense competition for the acquisition of new land. In addition, Genstar management has intimate knowledge of the residential markets where Genstar operates and in markets where it seeks new land investments.

Product Safety and Security

Sobeys is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, food safety and product handling, including pharmaceuticals. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to Sobeys' private label products, in relation to the production, packaging and design of products.

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect Sobeys' financial performance. Procedures are in place to manage food crises, should they occur. These procedures are intended to identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from sale immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs which address safe food handling and preparation standards. However, there can be no assurance that such measures will prevent the occurrence of any such contamination, and insurance may not be sufficient to cover any resulting financial liability or reputational harm.

Human Resources

A significant percentage of the Company's store and distribution centre workforce, particularly in Western Canada, is unionized. While overall the Company has and works to maintain good relationships with its employees and unions, the renegotiation of collective agreements always presents the risk of labour disruption. The Company has consistently stated it will accept the short-term costs of labour disruption to support a commitment to building and sustaining a competitive cost structure for the long term. Any prolonged or widespread work stoppages or other labour disputes could have an adverse impact on the Company's financial results.

Effective leadership is very important to the growth and continued success of the Company. The Company develops and delivers training programs at all levels across its various operating regions in order to improve employee knowledge and to better serve its customers. The ability of the Company to properly develop, train and retain its employees with the appropriate skill set could affect the Company's future performance.

There is always a risk associated with the loss of key personnel. Succession plans have been identified for key roles including the depth of management talent throughout the Company and its subsidiaries; these plans are overseen by the Human Resources Committee and reviewed at least annually by the Board of Directors.

Workplace health and safety is a top priority for the Company, which has robust programs and reporting mechanisms in place designed to ensure regulatory compliance and mitigate the risks associated with workplace injury and illness.

Operations

The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchisees and affiliates operate approximately 52 percent of Sobeys' retail stores. Sobeys relies on its franchisees, affiliates and corporate store management to successfully execute retail strategies and programs.

To maintain controls over Sobeys' brands and the quality and range of products and services offered at its stores, franchisees and affiliates agree to purchase merchandise from Sobeys. In addition, each store agrees to comply with the policies, marketing plans and operating standards prescribed by Sobeys. These obligations are specified under franchise and operating agreements which expire at various times for individual franchisees and affiliates. Despite these franchise and operating agreements, Sobeys may have limited ability to control a franchisees' and affiliates' business operations. A breach of these franchise and operating agreement or operational failures by a significant number of franchisees and affiliates may adversely affect Sobeys' reputation and financial performance.

Technology

Sobeys operates extensive and complex information technology systems that are vital to the successful operation of its business and marketing strategies. Any interruption to these systems or the information collected by them would have a significant adverse impact on the Company, its operations and its financial results.

The Company and each of its operating companies are committed to improving their operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk of realization of benefits, that must be mitigated by disciplined change management and governance processes. Sobeys has a business process optimization team staffed with knowledgeable internal resources (supplemented by external resources as needed) that is responsible for implementing the various initiatives.

Information Management

The integrity, reliability and security of information in all its forms is critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches or inappropriate disclosure or leaks of sensitive information. Gathering and analyzing information regarding customers' purchasing preferences is an important part of the Company's strategy to attract and retain customers and effectively compete. Any failure to maintain privacy of customer information or to comply with applicable privacy laws or regulations could adversely affect the Company's reputation, competitive position and results of operations.

Information management is identified as a risk in its own right, separate from the technology risk. The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is being managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management.

Supply Chain

The Company is exposed to potential supply chain disruptions and errors that could result in obsolete merchandise or an excess or shortage of merchandise in its retail store network. A failure to implement and maintain effective supplier selection and procurement practices could adversely affect Sobeys' ability to deliver desired products to customers and adversely affect the Company's ability to attract and retain customers. A failure to maintain an efficient supply and logistics chain may adversely affect Sobeys' ability to sustain and meet growth objectives and maintain margins.

Product Costs

Sobeys is a significant purchaser of food product which is at risk of cost inflation given rising commodity prices and other costs of production to food manufacturers. Should rising costs of product materialize in excess of expectations and should Sobeys not be able to offset such cost inflation through higher retail prices or other cost savings, there could be a negative impact on sales and margin performance.

Economic Environment

Management continues to closely monitor economic conditions, including foreign exchange rates, interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

Liquidity Risk

The Company's business is dependent in part on having access to sufficient capital and financial resources to fund its growth activities and investment in operations. Any failure to maintain adequate financial resources could impair the Company's growth or ability to satisfy financial obligations as they come due. The Company actively maintains committed credit facilities to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements. The Company monitors capital markets and the related economic conditions and maintains access to debt capital markets for long term debt issuances as deemed prudent in order to minimize risk and optimize pricing. However, there can be no assurance that adequate capital resources will be available in the future on acceptable terms or at all.

Interest Rate Fluctuation

The Company's long-term debt objective is to maintain the majority of its debt at fixed interest rates. Any increase in the applicable interest rates could increase interest expense and have a material adverse effect on the Company's cash flow and results of operations. There can be no assurance that risk management strategies, if any, undertaken by the Company will be effective.

Business Continuity

The Company may be subject to unexpected events and natural hazards, including severe weather events, interruption of utilities and infrastructure or occurrence of pandemics, which could cause sudden or complete cessation of its day to day operations. The Company has worked with industry and government sources to develop preparedness plans. However, no such plan can eliminate the risks associated with events of this magnitude. Any failure to respond effectively or appropriately to such events could adversely affect the Company's operations, reputation and financial results.

Insurance

The Company and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and also purchase excess insurance coverage from financially stable third party insurance companies. In addition to maintaining comprehensive loss prevention programs, the Company maintains management programs to mitigate the financial impact of operational risks. Such programs may not be effective to limit the Company's exposure to these risks, and to the extent that the Company is self-insured or liability exceeds applicable insurance limits, the Company's financial position could be adversely affected.

Ethical Business Conduct

Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could therefore negatively impact the Company's financial performance. The Company's framework for managing ethical business conduct includes the adoption of a Code of Business Conduct and Ethics which directors and employees of the Company are required to acknowledge and agree to on a regular basis and the Company maintains an anonymous, confidential whistle blowing hotline. There can be no assurance that these measures will be effective to prevent violations of law or ethical business practices.

Environmental

The Company operates its business locations across the country, including numerous fuel stations. Each of these sites has the potential to experience environmental contamination or other issues as a result of the Company's operations or the activities of third parties, including neighbouring properties.

When environmental issues are identified, any required environmental site remediation is completed using appropriate, qualified internal and external resources. The Company may be required to absorb all costs associated with such remediation, which may be substantial.

Sobeys' retail fuel locations operate underground storage tanks. Environmental contamination resulting from leaks or damages to these tanks is possible. To mitigate this environmental risk, Sobeys engages in several monitoring procedures, as well as risk assessment activities, to minimize potential environmental hazards.

These activities mitigate but do not eliminate the Company's environmental risk, and as such, along with the risk of changes to existing environmental protection regulatory requirements, there remains exposure for negative financial and operational impacts to the Company in future years.

Occupational Health and Safety

The Company has developed programs to promote a healthy and safe workplace, as well as progressive employment policies focused on the well-being of the thousands of employees who work in its stores, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board of Directors.

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail stores, as well as for its commercial property and residential development operations, with direct or indirect Company ownership being an important, but not overriding, consideration. The Company develops certain retail store locations on owned sites; however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and the ability to expand existing stores are therefore in large part contingent upon the successful negotiation of operating leases with these developers and the Company's ability to purchase high potential sites.

Legal, Taxation and Accounting

Changes to any of the various federal and provincial laws, rules and regulations related to the Company's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to the Company. Failure to fully comply with various laws and rules and regulations may expose the Company to proceedings which may materially affect its performance.

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company. The Company mitigates the risk of not being in compliance with the various laws and rules and regulations by monitoring for newly adopted activities, improving technology systems and controls, improving internal controls to detect and prevent errors and overall, application of more scrutiny to ensure compliance. In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

Utility and Fuel Prices

The Company is a significant consumer of electricity, other utilities and fuel. The costs of these items have been subject to significant volatility. Unanticipated cost increases in these items could negatively affect the Company's financial performance. A failure to maintain effective consumption and procurement programs could adversely affect the Company's financial results. In addition, Sobeys operates a large number of fuel stations. Significant increases in wholesale prices or availability could adversely affect operations and financial results of the fuel retailing business.

Credit Rating

There can be no assurance that the credit ratings assigned to the various debt instruments issued by Sobeys will remain in effect for any given period of time or that the rating will not be lowered, withdrawn or revised by DBRS or S&P at any time. Real or anticipated changes in credit ratings can affect the cost at which Sobeys can access the capital markets. The likelihood that Sobeys' creditors will receive payments owing to them will depend on the Sobeys' financial health and creditworthiness. Credit ratings assigned by a ratings agency provide an opinion of that ratings agency on the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Receipt of a credit rating provides no guarantee of Sobeys' future creditworthiness.

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro and the USD. USD purchases of products represent approximately 5.8 percent of Sobeys' total annual purchases, and Euro purchases are primarily limited to specific contracts for capital expenditures. A failure to adequately manage the risk of exchange rate changes could adversely affect the Company's financial results.

Capital Allocation

It is important that capital allocation decisions result in an appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including the Board of Directors' review of significant capital allocation decisions.

Seasonality

The Company's operations as they relate to food, specifically inventory levels, sales volume and product mix, are impacted to some degree by certain holiday periods in the year.

Foreign Operations

The Company has certain foreign operations. The Company's foreign operations are limited to a produce sourcing operation and residential real estate partnerships based in the United States.

Drug Regulation

The Company currently operates 348 in-store pharmacies and 75 freestanding pharmacies that are subject to risks associated with changes to federal and provincial legislation governing the sale of prescription drugs. Legislated changes to generic prescription drug prices and dispensing fees, which vary province by province, continued to impact the Company in fiscal 2016. In addition to provincial plan changes, third-parties continue to advocate for changes to generic drug legislation in order to reduce drug plan costs. Changes to legislation affecting generic prescription drug prices, reimbursement rates for generic drugs, manufacturer allowance funding and dispensing fees are expected to continue the downward pressure on prescription drug sales. The Company will continue to identify opportunities to mitigate the negative impact these changes have on financial performance.

Pension Plans

The Company has certain retirement benefit obligations under its registered defined benefit plans. New regulations and market driven changes may result in changes in discount rates and other variables which could result in the Company being required to make contributions that differ from estimates, which could have an adverse affect on the financial performance of the Company.

The Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 16 percent of the employees of Sobeys and its franchisees and affiliates participate in these plans. The responsibility of Sobeys, its franchisees and affiliates to make contributions to these plans is limited to the amounts established in the collective bargaining agreements; and other associated agreements, however poor performance of these plans could have a negative effect on the participating employees or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

Leverage Risk

The Company's degree of leverage, particularly since the draw of credit facilities to complete the Canada Safeway acquisition, could have adverse consequences for the Company. These include limiting the Company's ability to obtain additional financing for working capital and activities such as capital expenditures, product development, debt service requirements, and acquisitions. Higher leveraging restricts the Company's flexibility and discretion to operate its business by limiting the Company's ability to declare dividends due to having to dedicate a portion of the Company's cash flows from operations to the payment of interest on its existing indebtedness. Utilizing cash flows for interest payments also limits capital available for other purposes including operations, capital expenditures and future business opportunities. Increased levels of debt expose the Company to increased interest expense on borrowings at variable rates thereby limiting the Company's ability to adjust to changing market conditions. This could place the Company at a competitive disadvantage compared to its competitors that have less debt, by making the Company vulnerable during downturns in general economic conditions and limiting the Company's ability to make capital expenditures that are important to its growth and strategies.

Integration of the Combined Business

The integration of the Canada Safeway operations into the Company has presented significant challenges, and management may be unable to complete the integration smoothly, or successfully, in a timely manner or without spending significant amounts of money. It is possible that the continuing execution of the integration process could result in further disruption of the respective ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of management to maintain relationships with customers, suppliers and employees or to achieve the anticipated benefits of the Canada Safeway acquisition.

The completion of the integration of the acquired business requires the dedication of substantial effort, time and resources on the part of management, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. There can be no assurance that management will be able to completely integrate the operations of each of the businesses successfully or achieve all of the synergies or other benefits that were anticipated as a result of the Canada Safeway acquisition. The extent to which synergies are realized and the timing of such cannot be assured. Any inability of management to successfully integrate the operations of the Company and Canada Safeway could have a further material adverse effect on the business, financial condition and results of operations of the Company.

SUBSEQUENT EVENTS

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land owned by Empire. Crombie REIT will also invest approximately $58.8 million in renovations or expansions of 10 Sobeys retail locations already in Crombie REIT's portfolio. The transaction was approved on June 28, 2016 by the unitholders of Crombie REIT, excluding Empire and its affiliates, and is subject to regulatory approval. See the "Significant Items" section of this MD&A for further information.

Subsequent to May 7, 2016, Sobeys sold and leased back a property from a third party. Cash proceeds received on the sale was $24.0 million, resulting in a pre-tax gain of $1.1 million.

DESIGNATION FOR ELIGIBLE DIVIDENDS

"Eligible dividends" receive favourable treatment for income tax purposes. To be considered an eligible dividend, a dividend must be designated as such at the time of payment.

Empire has, in accordance with the administrative position of CRA, included the appropriate language on its website to designate the dividends paid by Empire as eligible dividends unless otherwise designated.

NON-GAAP FINANCIAL MEASURES & FINANCIAL METRICS

There are measures and metrics included in this MD&A that do not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. Management believes that certain of these measures and metrics, including gross profit and EBITDA, are important indicators of Empire's ability to generate liquidity through operating cash flow to fund future working capital requirements, service outstanding debt, and fund future capital expenditures and uses these metrics for these purposes.

In addition, management adjusts measures and metrics, including EBITDA and net (loss) earnings in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure, by excluding certain items. These items could impact the analysis of trends in performance and affect the comparability of our financial results. By excluding these items, management is not implying they are non-recurring.

Financial Measures

The intent of Non-GAAP Financial Measures is to provide additional useful information to investors and analysts. Non-GAAP Financial Measures should not be considered in isolation or used as a substitute for measures of performance prepared in accordance with GAAP. The Company's definitions of the non-GAAP terms included in this MD&A are as follows:

- Gross profit is calculated as sales less cost of sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA"), is calculated as net (loss) earnings, before finance costs (net of finance income), income tax expense (recovery), depreciation, and amortization of intangibles. The exclusion of depreciation and amortization of intangibles partially eliminates the non-cash impact from operating (loss) income.

The following table reconciles GAAP measures to EBITDA:

($ in millions)	14 Weeks Ended May 7, 2016	13 Weeks Ended May 2, 2015[1]	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015[1]
Net (loss) earnings	**$ (939.8)**	$ 58.7	**$ (2,114.6)**	$ 436.9
Income tax (recovery) expense	**(256.7)**	22.9	**(441.3)**	150.4
Finance costs, net	**36.3**	34.3	**137.4**	155.1
Operating (loss) income	**(1,160.2)**	115.9	**(2,418.5)**	742.4
Depreciation	**90.9**	99.4	**384.8**	397.8
Amortization of intangibles	**22.1**	21.0	**89.0**	84.7
EBITDA	**$ (1,047.2)**	$ 236.3	**$ (1,944.7)**	$ 1,224.9

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance. These adjustments result in a truer economic representation on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food retailing" and "Investments and other operations" sections of this MD&A.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting total finance income.

The following table reconciles GAAP measures to interest expense:

($ in millions)	14 Weeks Ended May 7, 2016	13 Weeks Ended May 2, 2015[1]	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015[1]
Finance costs, net	**$ 36.3**	$ 34.3	**$ 137.4**	$ 155.1
Plus: finance income	**1.6**	0.8	**3.3**	2.6
Plus: fair value (losses) gains on forward contracts	**(0.6)**	(0.1)	**(0.2)**	0.5
Less: net pension finance costs	**(3.0)**	(2.7)	**(12.4)**	(12.0)
Less: accretion expense on provisions	**(4.7)**	(1.9)	**(14.1)**	(8.9)
Interest expense	**$ 29.6**	$ 30.4	**$ 114.0**	$ 137.3
Interest expense on financial liabilities measured at amortized cost	**$ 29.6**	$ 30.2	**$ 113.8**	$ 136.7
Losses on cash flow hedges reclassified from other comprehensive income	**–**	0.2	**0.2**	0.6
Interest expense	**$ 29.6**	$ 30.4	**$ 114.0**	$ 137.3

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.

- Adjusted net earnings are net (loss) earnings, net of non-controlling interest, excluding certain items to better analyze trends in performance and financial results. These adjustments result in a truer economic representation of the underlying business on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted net earnings is reconciled in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food retailing" and "Investments and other operations" sections of this MD&A.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases. Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. Free cash flow is reconciled to GAAP measures as reported on the consolidated statements of cash flows in the "Free Cash Flow" section of this MD&A.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt. Management believes that funded debt represents the best indicator of the Company's total financial obligations on which interest payments are made.

- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company's financial obligations after 100 percent of cash and cash equivalents are applied against the total obligation.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.

The following tables reconcile the Company's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at May 7, 2016, May 2, 2015 and May 3, 2014, respectively:

($ in millions)	May 7, 2016	May 2, 2015[1]	May 3, 2014[1][2]
Long-term debt due within one year	$ 341.4	$ 53.9	$ 218.0
Long-term debt	2,011.5	2,230.2	3,275.8
Funded debt	2,352.9	2,284.1	3,493.8
Less: cash and cash equivalents	(264.7)	(295.9)	(429.3)
Net funded debt	2,088.2	1,988.2	3,064.5
Total shareholders' equity, net of non-controlling interest	3,621.0	5,983.8	5,700.5
Net total capital	$ 5,709.2	$ 7,972.0	$ 8,765.0

($ in millions)	May 7, 2016	May 2, 2015	May 3, 2014
Funded debt	$ 2,352.9	$ 2,284.1	$ 3,493.8
Total shareholders' equity, net of non-controlling interest	3,621.0	5,983.8	5,700.5
Total capital	$ 5,973.9	$ 8,267.9	$ 9,194.3

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated balance sheets.
(2) Amounts have been restated as a result of the finalized purchase price allocation related to the Canada Safeway acquisition; see the "Business Acquisition" section of the fiscal 2015 annual MD&A.

Financial Metrics

The intent of the following Non-GAAP Financial Metrics is to provide additional useful information to investors and analysts. Management uses financial metrics for decision making, internal reporting, budgeting and forecasting. The Company's definitions of the metrics included in this MD&A are as follows:

- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of cost control and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity.
- Interest coverage is calculated as operating (loss) income divided by interest expense.
- Funded debt to total capital ratio is funded debt divided by total capital.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that funded debt to total capital ratio and net funded debt to net total capital ratios represent measures upon which the Company's changing capital structure can be analyzed over time. Increasing ratios would indicate that the Company is using an increasing amount of debt in its capital structure to fund its operations.
- Funded debt to EBITDA ratio is funded debt divided by trailing four-quarter EBITDA. Management uses this ratio to partially assess the financial condition of the Company. An increasing ratio would indicate that the Company is utilizing more debt per dollar of EBITDA generated.
- EBITDA to interest expense ratio is trailing four-quarter EBITDA divided by trailing four-quarter interest expense. Management uses this ratio to partially assess the coverage of its interest expense on financial obligations. An increasing ratio would indicate that the Company is generating more EBITDA per dollar of interest expense, resulting in greater interest coverage.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.

The following table shows the calculation of Empire's book value per common share as at May 7, 2016, May 2, 2015 and May 3, 2014.

($ in millions, except per share information)	May 7, 2016	May 2, 2015	May 3, 2014
Shareholders' equity, net of non-controlling interest	**$ 3,621.0**	$ 5,983.8	$ 5,700.5
Shares outstanding (basic)	**271.7**	277.0	276.9
Book value per common share	**$ 13.33**	$ 21.60	$ 20.59

Additional financial information relating to Empire, including the Company's Annual Information Form, can be found on the Company's website www.empireco.ca or on the SEDAR website for Canadian regulatory filings at www.sedar.com.

Approved by Board of Directors: June 28, 2016
Stellarton, Nova Scotia, Canada

Consolidated Financial Statements

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Management's Statement of Responsibility for Financial Reporting

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or Generally Accepted Accounting Principles and reflect management's best estimates and judgments. All other financial information in the report is consistent with that contained in the consolidated financial statements.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the consolidated financial statements, the safeguarding of Company assets, and the prevention and detection of fraudulent financial reporting.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and composed solely of directors who are unrelated to, and independent of, the Company, meet regularly with financial management and external auditors to satisfy itself as to reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual consolidated financial statements to be issued to shareholders.

The external auditors have full and free access to the Audit Committee.

signed "Rob Dexter"

Marc Poulin
President and
Chief Executive Officer

June 28, 2016

signed "François Vimard"

François Vimard
Chief Financial and
Administrative Officer

June 28, 2016

Independent Auditor's Report

TO THE SHAREHOLDERS OF EMPIRE COMPANY LIMITED

We have audited the accompanying consolidated financial statements of Empire Company Limited, which comprise the consolidated balance sheet as at May 7, 2016 and the consolidated statements of (loss) earnings, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the 53-week period then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empire Company Limited as at May 7, 2016 and its financial performance and its cash flows for the 53-week period then ended in accordance with International Financial Reporting Standards.

OTHER MATTER

The financial statements of Empire Company Limited for the 52-week period ended May 2, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on June 24, 2015.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

Halifax, Canada
June 28, 2016

Consolidated Balance Sheets

As At (in millions of Canadian dollars)	May 7, 2016	May 2, 2015
ASSETS		
Current		
Cash and cash equivalents	**$ 264.7**	$ 295.9
Receivables	**489.4**	499.7
Inventories *(Note 4)*	**1,287.3**	1,260.6
Prepaid expenses	**117.3**	120.5
Loans and other receivables *(Note 5)*	**26.4**	24.8
Income taxes receivable	**11.9**	18.9
Assets held for sale *(Note 6)*	**407.1**	47.8
	2,604.1	2,268.2
Loans and other receivables *(Note 5)*	**93.5**	88.5
Investments	**24.7**	25.1
Investments, at equity *(Note 7)*	**574.9**	577.8
Other assets *(Note 8)*	**42.8**	48.4
Property and equipment *(Note 9)*	**3,144.7**	3,500.4
Investment property *(Note 10)*	**82.9**	104.2
Intangibles *(Note 11)*	**911.5**	938.0
Goodwill *(Note 12)*	**962.2**	3,799.2
Deferred tax assets *(Note 13)*	**646.2**	110.9
	$ 9,087.5	$ 11,460.7
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 2,173.1**	$ 2,264.9
Income taxes payable	**21.2**	40.9
Provisions *(Note 14)*	**174.9**	122.1
Long-term debt due within one year *(Note 15)*	**341.4**	53.9
	2,710.6	2,481.8
Provisions *(Note 14)*	**131.7**	142.9
Long-term debt *(Note 15)*	**2,011.5**	2,230.2
Other long-term liabilities *(Note 16)*	**108.7**	106.9
Employee future benefits *(Note 17)*	**336.8**	351.1
Deferred tax liabilities *(Note 13)*	**108.1**	110.9
	5,407.4	5,423.8
SHAREHOLDERS' EQUITY		
Capital stock *(Note 18)*	**2,045.1**	2,109.4
Contributed surplus	**22.5**	8.2
Retained earnings	**1,543.5**	3,859.9
Accumulated other comprehensive income	**9.9**	6.3
	3,621.0	5,983.8
Non-controlling interest	**59.1**	53.1
	3,680.1	6,036.9
	$ 9,087.5	$ 11,460.7

See accompanying notes to the consolidated financial statements.

On Behalf of the Board

signed "Rob Dexter"

Director

signed "Marc Poulin"

Director

Consolidated Statements of (Loss) Earnings

53 and 52 Weeks Ended (in millions of Canadian dollars, except per share amounts)	May 7, 2016	May 2, 2015
Sales	$ 24,618.8	$ 23,928.8
Other (loss) income, net *(Note 19)*	(10.9)	98.4
Share of earnings from investments, at equity *(Note 7)*	86.1	85.7
Operating expenses		
Cost of sales	18,661.2	17,966.7
Selling and administrative expenses	5,424.2	5,403.8
Impairments of goodwill and long-lived assets *(Notes 9 and 12)*	3,027.1	–
Operating (loss) income	(2,418.5)	742.4
Finance costs, net *(Note 21)*	137.4	155.1
(Loss) earnings before income taxes	(2,555.9)	587.3
Income tax (recovery) expense *(Note 13)*	(441.3)	150.4
Net (loss) earnings	$ (2,114.6)	$ 436.9
(Loss) earnings for the year attributable to:		
Non-controlling interest	$ 16.4	$ 17.9
Owners of the Company	(2,131.0)	419.0
	$ (2,114.6)	$ 436.9
(Loss) earnings per share *(Note 22)*		
Basic	$ (7.78)	$ 1.51
Diluted	$ (7.78)	$ 1.51
Weighted average number of common shares outstanding, in millions *(Note 22)*		
Basic	273.9	277.0
Diluted	274.0	277.2

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive (Loss) Income

53 and 52 Weeks Ended (in millions of Canadian dollars)	May 7, 2016	May 2, 2015
Net (loss) earnings	$ (2,114.6)	$ 436.9
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net (loss) earnings		
Unrealized gains (losses) on derivatives designated as cash flow hedges (net of taxes of $(1.5) (2015 – $1.8))	3.8	(4.6)
Reclassification of losses on derivatives designated as cash flow hedges to net (loss) earnings (net of taxes of $(0.1) (2015 – $(0.2)))	0.1	0.4
Unrealized (losses) gains on available for sale financial assets (net of taxes of $0.1 (2015 – $ nil))	(0.3)	0.4
Share of other comprehensive income of investments, at equity (net of taxes of $(0.4) (2015 – $(0.3)))	1.1	1.3
Exchange differences on translation of foreign operations (net of taxes of $(2.4) (2015 – $ nil))	(1.1)	7.8
	3.6	5.3
Items that will not be reclassified subsequently to net (loss) earnings		
Actuarial gains (losses) on defined benefit plans (net of taxes of $(2.8) (2015 – $15.8))	7.3	(45.3)
Total comprehensive (loss) income	$ (2,103.7)	$ 396.9
Total comprehensive (loss) income for the year attributable to:		
Non-controlling interest	$ 16.4	$ 17.9
Owners of the Company	(2,120.1)	379.0
	$ (2,103.7)	$ 396.9

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in millions of Canadian dollars)	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Attributable to Owners of the Company	Non-controlling Interest	Total Equity
Balance at May 3, 2014	$ 2,108.6	$ 5.0	$ 1.0	$ 3,585.9	$ 5,700.5	$ 41.0	$ 5,741.5
Dividends declared on common shares	–	–	–	(99.7)	(99.7)	–	(99.7)
Employee share options	0.8	3.2	–	–	4.0	–	4.0
Capital transactions with structured entities	–	–	–	–	–	(5.8)	(5.8)
Transactions with owners	0.8	3.2	–	(99.7)	(95.7)	(5.8)	(101.5)
Net earnings	–	–	–	419.0	419.0	17.9	436.9
Other comprehensive loss	–	–	5.3	(45.3)	(40.0)	–	(40.0)
Total comprehensive income for the year	–	–	5.3	373.7	379.0	17.9	396.9
Balance at May 2, 2015	$ 2,109.4	$ 8.2	$ 6.3	$ 3,859.9	$ 5,983.8	$ 53.1	$ 6,036.9
Dividends declared on common shares	**–**	**–**	**–**	**(109.4)**	**(109.4)**	**–**	**(109.4)**
Equity based compensation, net	**0.5**	**14.3**	**–**	**–**	**14.8**	**–**	**14.8**
Redemption of capital stock *(Note 18)*	**(64.8)**	**–**	**–**	**(83.3)**	**(148.1)**	**–**	**(148.1)**
Capital transactions with structured entities	**–**	**–**	**–**	**–**	**–**	**(10.4)**	**(10.4)**
Transactions with owners	**(64.3)**	**14.3**	**–**	**(192.7)**	**(242.7)**	**(10.4)**	**(253.1)**
Net loss	**–**	**–**	**–**	**(2,131.0)**	**(2,131.0)**	**16.4**	**(2,114.6)**
Other comprehensive income	**–**	**–**	**3.6**	**7.3**	**10.9**	**–**	**10.9**
Total comprehensive loss for the year	**–**	**–**	**3.6**	**(2,123.7)**	**(2,120.1)**	**16.4**	**(2,103.7)**
Balance at May 7, 2016	**$ 2,045.1**	**$ 22.5**	**$ 9.9**	**$ 1,543.5**	**$ 3,621.0**	**$ 59.1**	**$ 3,680.1**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

53 and 52 Weeks Ended (in millions of Canadian dollars)	May 7, 2016	May 2, 2015
Operations		
Net (loss) earnings	**$ (2,114.6)**	$ 436.9
Adjustments for:		
Depreciation	**384.8**	397.8
Income tax (recovery) expense	**(441.3)**	150.4
Finance costs, net *(Note 21)*	**137.4**	155.1
Amortization of intangibles	**89.0**	84.7
Loss (gain) on disposal of assets	**42.6**	(67.0)
Impairment of non-financial assets, net	**17.6**	1.5
Impairments of goodwill and long-lived assets *(Notes 9 and 12)*	**3,027.1**	–
Amortization of deferred item	**12.8**	12.7
Equity in earnings of other entities, net of distributions received	**9.9**	33.3
Employee future benefits	**(4.2)**	(2.9)
Increase in long-term lease obligation	**6.7**	5.8
Decrease in long-term provisions	**(25.8)**	(52.5)
Stock option plan	**3.6**	4.0
Restructuring	**–**	103.0
Net change in non-cash working capital	**(132.2)**	(14.5)
Income taxes paid, net	**(116.6)**	(90.2)
Cash flows from operating activities	**896.8**	1,158.1
Investment		
Increase in investments	**(4.0)**	(40.7)
Property, equipment and investment property purchases	**(616.5)**	(497.2)
Proceeds on disposal of property, equipment and investment property	**142.5**	781.2
Additions to intangibles	**(55.5)**	(39.8)
Loans and other receivables	**(6.6)**	(14.4)
Other assets and other long-term liabilities	**5.6**	(19.0)
Business acquisitions *(Note 23)*	**(90.7)**	(11.7)
Interest received	**2.6**	1.4
Cash flows (used in) from investing activities	**(622.6)**	159.8
Financing		
Issue of long-term debt	**716.7**	409.4
Debt financing costs	**(1.4)**	(0.9)
Repayment of long-term debt	**(660.4)**	(1,635.5)
Interest paid	**(92.4)**	(118.8)
Repurchase of Non-Voting Class A shares *(Note 18)*	**(148.1)**	–
Dividends paid, common shares	**(109.4)**	(99.7)
Non-controlling interest	**(10.4)**	(5.8)
Cash flows used in financing activities	**(305.4)**	(1,451.3)
Decrease in cash and cash equivalents	**(31.2)**	(133.4)
Cash and cash equivalents, beginning of year	**295.9**	429.3
Cash and cash equivalents, end of year	**$ 264.7**	$ 295.9

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

May 7, 2016 (in millions of Canadian dollars, except 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 consolidated financial statements for the period ended May 7, 2016 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and its joint ventures are accounted for using the equity method. The Company's business operations are conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 26, *Segmented Information*. The Company's food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's first quarter. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years. The years ended May 7, 2016 and May 2, 2015 were 53 and 52 weeks, respectively.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on June 28, 2016.

Basis of measurement

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

Use of estimates and judgments

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

The Company has applied judgment in its assessment of the appropriateness of consolidation of SEs, the appropriateness of equity accounting for its investments in associates and joint ventures, the classification of leases and financial instruments, the level of componentization of property and equipment, the determination of cash generating units, the identification of indicators of impairment for property and equipment, investment property, intangible assets and goodwill, the recognition and measurement of assets acquired and liabilities assumed, and the recognition of provisions.

Estimates, judgments and assumptions that could have a significant impact on the amounts recognized in the consolidated financial statements are summarized below. Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from these estimates.

(a) Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) estimated inventory provisions associated with vendor allowances and internal charges; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) inventories valued at retail and adjusted to cost.

(b) Impairment

Management assesses impairment of non-financial assets such as investments at equity, goodwill, intangible assets, property and equipment, and investment property. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit ("CGU") based on expected future cash flows. When measuring expected future cash flows, management makes assumptions about future growth of profits which relate to future events and circumstances. Actual results could vary from these estimated future cash flows. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Impairment losses and reversals are disclosed in the consolidated financial statements in Notes 9, 10, 11 and 12.

Goodwill is subject to impairment testing on an annual basis. The Company previously performed its annual assessment of goodwill impairment during its first quarter, but is transitioning to complete the assessment in its third quarter to better align with the Company's budgeting process. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are indicators that the recoverable amount of long-lived assets may be less than their carrying amount. As a result of operational challenges faced in Western Canada, primarily under the Safeway banner, and the outcome of the long-lived asset impairment tests, the Company reviewed goodwill for impairment as at January 30, 2016 and May 7, 2016 (Note 12).

Goodwill and long-lived assets were reviewed for impairment by determining the recoverable amount of each CGU or groups of CGUs to which the goodwill or long-lived assets relate. Management estimated the recoverable amount of the CGUs based on the higher of value-in-use ("VIU") and fair value less costs of disposal ("FVLCD"). The VIU calculations are based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future growth of profits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Actual results could vary from these estimates which may cause significant adjustments to the Company's goodwill or long-lived assets in subsequent reporting periods.

(c) Employee future benefits

Accounting for the costs of defined benefit pension plans and other post-employment benefits requires the use of a number of assumptions. Pension obligations are based on current market conditions and actuarial determined data such as medical cost trends, mortality rates, and future salary increases. A sensitivity analysis and more detail of key assumptions used in measuring the pension and post-employment benefit obligations are disclosed in Note 17.

(d) Income taxes

Assumptions are applied when management assesses the timing and reversal of temporary differences and estimates the Company's future earnings to determine the recognition of current and deferred income taxes. Judgments are also made by management when interpreting the tax rules in jurisdictions where the Company operates. Note 13 details the current and deferred income tax expense and deferred tax assets and liabilities.

(e) Business acquisitions

For business acquisitions, the Company applies judgment on the recognition and measurement of assets acquired and liabilities assumed, and estimates are utilized to calculate and measure such adjustments. In measuring the fair value of an acquiree's assets and liabilities management uses estimates about future cash flows and discount rates. Any measurement changes after initial recognition would affect the measurement of goodwill.

(f) Provisions

Estimates and assumptions are used to calculate provisions when the Company estimates the expected future cash flows relating to the obligation and applies an appropriate discount rate.

(g) Supply agreements

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The financial statements for the Company include the accounts of the Company and all of its subsidiary undertakings drawn up to the reporting date. Subsidiaries, including SEs, are all entities the Company controls. All subsidiaries have a reporting date within six weeks of the Company's reporting date. Where necessary, adjustments have been made to reflect transactions between the reporting dates of the Company and its subsidiaries.

Control exists when the Company has existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The Company reassesses control on an ongoing basis.

SEs are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. SEs are consolidated if, based on an evaluation of the substance of its relationship with the Company, the Company concludes that it controls the SE. SEs controlled by the Company were established under terms that impose strict limitations on the decision making powers of the SEs management and that results in the Company receiving the majority of the benefits related to the SEs operations and net assets, being exposed to the majority of risks incident to the SEs activities, and retaining the majority of the residual or ownership risks related to the SEs or their assets.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

Earnings or losses and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interest represents the portion of a subsidiary's earnings and losses and net assets that is not held by the Company. If losses in a subsidiary applicable to a non-controlling interest exceed the non-controlling interest in the subsidiary's equity, the excess is allocated to the non-controlling interest except to the extent that the majority has a binding obligation and is able to cover the losses.

(b) Business acquisitions

Business acquisitions are accounted for by applying the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations", are recognized at their fair value at the acquisition date, except for: (i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, which are recognized and measured in accordance with International Accounting Standard ("IAS") 12, "Income Taxes", and IAS 19, "Employee Benefits", respectively; and (ii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", which are measured and recognized at fair value less costs to sell. Goodwill arising on acquisition is recognized as an asset and represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of the acquisition. Any excess of identifiable net assets over the acquisition cost is recognized in net earnings or loss immediately after acquisition. Transaction costs related to the acquisition are expensed as they are incurred.

(c) Foreign currency translation

Assets and liabilities of foreign operations with a different functional currency than the Company are translated at exchange rates in effect at each reporting period end date. The revenues and expenses are translated at average exchange rates for the period. Cumulative gains and losses on translation are shown in accumulated other comprehensive income or loss.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each reporting period end date. Non-monetary items are translated at the historical exchange rate at the date of transaction. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income or loss. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period.

(d) Cash and cash equivalents

Cash and cash equivalents are defined as cash and guaranteed investments with a maturity less than 90 days at date of acquisition.

(e) Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

(f) Income taxes

Tax expense recognized in net earnings or loss comprises the sum of deferred income tax and current income tax not recognized in other comprehensive income or loss.

Current income tax assets and liabilities are comprised of claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable earnings, which differs from net earnings or loss in the consolidated financial statements. The calculation of current income tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred income taxes are calculated using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities and their related tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business acquisition or affects tax or accounting profit. The deferred tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the amounts are expected to settle. Deferred tax assets are only recognized to the extent that it is probable that they will be able to be utilized against future taxable income. The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be used without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by management based on the specific facts and circumstances.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of income or expense in net earnings or loss, except where they relate to items that are recognized in other comprehensive income or loss (such as the unrealized gains and losses on cash flow hedges) or directly in equity.

(g) Assets held for sale

Certain property and equipment have been listed for sale and reclassified as assets held for sale on the consolidated balance sheets. These assets are expected to be sold within a twelve month period. Assets held for sale are valued at the lower of carrying value and fair value less costs to sell.

(h) Investments in associates

Associates are those entities over which the Company is able to exert significant influence but which it does not control and which are not interests in a joint venture. Control is reassessed on an ongoing basis. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to the acquisition method as explained above. However, any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investments in associates.

All subsequent changes to the Company's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the earnings or losses generated by the associate are reported within share of earnings from investments, at equity on the Company's consolidated statements of earnings or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from earnings of the associate or items recognized directly in the associate's equity are recognized in earnings or losses or equity of the Company, as applicable. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports earnings, the Company resumes recognizing its share of those earnings only after its share of the earnings exceeds the accumulated share of losses that had previously not been recognized.

Unrealized gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a Company perspective.

At each reporting period end date, the Company assesses whether there are any indicators of impairment in its investment in associates. For investments in publicly traded entities, carrying value of the investment is compared to the current market value of the investment based on its quoted price at the balance sheet date. For entities which are not publicly traded, value-in-use of the investment is determined by estimating the Company's share of the present value of the estimated cash flows expected to be generated by the investee. If impaired, the carrying value of the Company's investment is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and value-in-use.

In the process of measuring future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's investments in associates in the subsequent financial years.

Each of the associates identified by the Company has a reporting year end of December 31. For purposes of the Company's consolidated year end financial statements, each of the associates' results are included based on financial statements prepared as at March 31, with any changes occurring between March 31 and the Company's year end that would materially affect the results being taken into account.

(i) Investments in joint ventures

Investments in joint ventures are joint arrangements whereby the Company and the other parties to the arrangements have joint control and therefore have rights to the net assets of the arrangement. Investments in joint ventures are initially recognized at cost and subsequently accounted for using the equity method.

(j) Financial instruments

Financial instruments are recognized on the consolidated balance sheets when the Company becomes a party to the contractual provisions of a financial instrument. The Company is required to initially recognize all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value. Loans and receivables, held to maturity financial assets and other financial liabilities are subsequently measured at amortized cost. Derivatives and non-financial derivatives must be recorded at fair value on the consolidated balance sheets unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

The Company classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: i) FVTPL – measured at fair value with changes in fair value recorded in net earnings or loss; ii) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings or loss in the period that the asset is derecognized or impaired; iii) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income or loss for the current period until realized through disposal or impairment; and iv) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings or loss in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: i) FVTPL – measured at fair value with changes in fair value recorded in net earnings or loss and ii) other liabilities – measured at amortized cost with gains and losses recognized in net earnings or loss in the period that the liability is derecognized.

The Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Receivables	Loans and receivables	Amortized cost
Loans and other receivables	Loans and receivables	Amortized cost
Investments	Available for sale	Fair value
Derivative financial assets and liabilities	FVTPL	Fair value
Non-derivative other assets	FVTPL	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

All financial assets are reviewed for impairment at each reporting date, except those classified as FVTPL. Loans and receivables are reviewed for past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchisee or affiliate locations.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition and amortized using the effective interest method.

Fair value determination is classified within a three-level hierarchy, based on observability of significant inputs, as follows: Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or Level 3 – unobservable inputs for the asset or liability. Inputs into the determination of the fair value require management's judgment or estimation.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes to valuation methods may result in transfers into or out of an investment's assigned level.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

(k) Hedges

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange, variable interest rates, and energy prices. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income or loss. To the extent the change in fair value of the derivative does not completely offset the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings or loss. Amounts accumulated in other comprehensive income or loss are reclassified to net earnings or loss when the hedged item is recognized in net earnings or loss. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income or loss relating to the hedge is carried forward until the hedged item is recognized in net earnings or loss. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income or loss is immediately reclassified to net earnings or loss.

Financial derivatives assigned as part of a cash flow hedging relationship are classified as either an other asset or other long-term liability as required based on their fair value determination.

Significant derivatives include the following:

(1) Foreign currency forward contracts and foreign currency swaps for the primary purpose of limiting exposure to exchange rate fluctuations relating to the purchase of goods or expenditures denominated in foreign currencies. Certain of these contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(2) Interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's debt portfolio. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates. Accordingly, the effective portion of the change in the fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(3) Electricity forward contracts for the primary purpose of limiting exposure to fluctuations in the market prices of electricity. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(l) Property and equipment

Owner-occupied land, buildings, equipment, leasehold improvements, and assets under construction are carried at acquisition cost less accumulated depreciation and impairment losses.

Buildings that are leasehold property are also included in property and equipment if they are classified as a finance lease. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

When significant parts of property and equipment have different useful lives, they are accounted for as separate components. Depreciation is recorded on a straight-line basis from the time the asset is available or when assets under construction become available for use over the estimated useful lives of the assets as follows:

Buildings	10 – 40 years
Equipment	3 – 20 years
Leasehold improvements	Lesser of lease term and 7 – 20 years

Depreciation has been included within selling and administrative expenses in the consolidated statements of (loss) earnings. Material residual value estimates and estimates of useful life are reviewed and updated as required, or annually at a minimum.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings or loss within other (loss) income, net. If the sale is to a Company's investment, at equity, a portion of the gain is deferred and would reduce the carrying value of the investment.

(m) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both, rather than for the principal purpose of the Company's operating activities. Investment properties are accounted for using the cost model. The depreciation policies for investment property are consistent with those described for property and equipment.

Any gain or loss arising from the sale of an investment property is immediately recognized in net earnings or loss, unless the sale is to an investment, at equity, in which case a portion of the gain is deferred and would reduce the carrying value of the Company's investment. Rental income and operating expenses from investment property are reported within other (loss) income, net and selling and administrative expenses, respectively, in the consolidated statements of (loss) earnings.

(n) Leases

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.

(i) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

(ii) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation in long-term debt.

Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in net earnings or loss immediately. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Lease allowances and incentives are recognized as other long-term liabilities. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

Real estate lease expense is amortized on a straight-line basis over the entire term of the lease.

(iii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease for the Company, any excess of sales proceeds over the carrying amount is recognized as deferred revenue and amortized over the term of the new lease. Any profit or loss in a sale and leaseback transaction resulting in an operating lease that is transacted at fair value is recognized immediately. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the new lease.

(o) Intangibles

Intangibles arise on the purchase of a new business, existing franchises, software, and the acquisition of pharmacy prescription files. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Useful lives are reviewed annually and intangibles are subject to impairment testing. The following useful lives are applied:

Deferred purchase agreements	5 – 10 years
Franchise rights/agreements	10 years
Lease rights	5 – 10 years
Off market leases	Lesser of lease term and 40 years
Prescription files	15 years
Software	3 – 7 years
Other	5 – 10 years

Amortization has been included within selling and administrative expenses in the consolidated statements of (loss) earnings. Subsequent expenditures made by the Company relating to intangible assets that do not meet the capitalization criteria are expensed in the period incurred.

Included in intangibles are brand names, loyalty programs, and private labels, the majority of which have indefinite useful lives. Intangibles with indefinite useful lives are measured at cost less any accumulated impairment losses. These intangibles are tested for impairment on an annual basis or more frequently if there are indicators that intangibles may be impaired.

(p) Goodwill

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible and intangible assets acquired at the date of acquisition.

(q) Impairment of non-financial assets

Goodwill and indefinite life intangibles are reviewed for impairment at least annually by assessing the recoverable amount of each CGU or groups of CGUs to which the goodwill or indefinite life intangible relates. The recoverable amount is the higher of FVLCD and VIU. When the recoverable amount of the CGU(s) is less than the carrying amount, an impairment loss is recognized immediately in net earnings or loss. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of FVLCD and VIU. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU(s) to which the asset belongs. The Company has determined a CGU to be primarily an individual store. Corporate assets such as head offices and distribution centres do not individually generate separate cash inflows and are therefore aggregated for testing with the stores they service. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to the recoverable amount. An impairment loss is recognized immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or CGU) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of impairment loss is recognized immediately in net earnings or loss.

(r) Customer loyalty programs

The AIR MILES® loyalty program is used by the Company. AIR MILES® are earned by Sobeys customers based on purchases in stores. The Company pays a per point fee under the terms of the agreement with AIR MILES®.

Previously, the Company utilized a loyalty card program (the "Program") which allowed members to earn points on their purchases in certain Sobeys retail stores. Members could redeem these points, in accordance with the Program rewards schedule, for discounts on future grocery purchases, or purchase products or services. The fair value of loyalty points awarded was accounted for as a separate element of the sales transaction and recognition of revenue was deferred until the awards were redeemed after adjustment for the number of points expected never to be redeemed based on the expected future activity. Fair value was determined by reference to the value for which the points can be redeemed. The deferred revenue relating to the Program was included in accounts payable and accrued liabilities on the Company's consolidated balance sheets. During the fourth quarter of fiscal 2015, the Program ceased with all remaining stores transitioning into the AIR MILES® loyalty program. Customers had the ability to exchange outstanding points into AIR MILES® with redemptions permitted until June 1, 2015.

(s) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material. Where discounting is used, the increase in the provision due to passage of time ("unwinding of the discount") is recognized within finance costs, net in the consolidated statements of (loss) earnings.

(t) Borrowing costs

Borrowing costs are primarily comprised of interest on the Company's debts. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a component of the cost of the asset to which it is related. All other borrowing costs are expensed in the period in which they are incurred and are reported within finance costs.

(u) Deferred revenue

Deferred revenue consists of long-term supplier purchase agreements and gains on sale and leaseback transactions relating to certain finance leases. Deferred revenue is included in other long-term liabilities and is taken into income on a straight-line basis over the term of the related agreements.

(v) Employee benefits

(i) Short-term employment benefits

Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses expected to be settled within 12 months from the end of the reporting period. Short-term employee benefits are measured on an undiscounted basis and are recorded as selling and administrative expenses as the related service is provided.

(ii) Post-employment benefits

The cost of the Company's pension benefits for defined contribution plans are expensed at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation, and retirement ages.

The liability recognized on the consolidated balance sheets for defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair market value of plan assets. Current market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation.

Re-measurements, comprising of actuarial gains and losses and the return on plan assets (excluding amounts in net interest), are recognized immediately on the consolidated balance sheets with a corresponding charge to retained earnings through other comprehensive income or loss in the period in which they occur. Re-measurements are not reclassified to net earnings or loss in subsequent periods.

Past service costs are recognized in net earnings or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Company recognizes restructuring-related costs.

Service cost on the net defined benefit liability, comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, is included in selling and administrative expenses. Net interest expense on the net defined benefit liability is included in finance costs, net.

(iii) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the Company recognizes related restructuring costs and when the Company can no longer withdraw the offer of those benefits.

(w) Revenue recognition

Sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company and consolidated SEs, and revenue from sales to non-SE franchised stores, affiliated stores and independent accounts. Revenue received from non-SE franchised stores, affiliated stores and independent accounts is mainly derived from the sale of product. The Company also collects franchise fees under two types of arrangements. Franchise fees contractually due based on the dollar value of product shipped are recorded as revenue when the product is shipped. Franchise fees contractually due based on the franchisee's retail sales are recorded as revenue weekly upon invoicing based on the franchisee's retail sales.

(x) Vendor allowances

The Company receives allowances from certain vendors whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. The Company recognizes these allowances as a reduction of cost of sales and related inventories. Certain allowances are contingent on the Company achieving minimum purchase levels and these allowances are recognized when it is probable that the minimum purchase level will be met, and the amount of allowance can be estimated.

(y) Interest and dividend income

Interest income and expenses are reported on an accrual basis using the effective interest method. Dividend income is recognized when the right to receive payment has been established.

(z) Earnings per share

Basic earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive effect of employee stock options and performance share units. When a loss is recorded, the weighted average number of shares used for the purpose of basic and diluted earnings per share is equal, as the impact of all potential common shares would be anti-dilutive.

(aa) Stock-based compensation

The Company operates both equity and cash settled stock-based compensation plans for certain employees.

All goods and services received in exchange for the grant of any stock-based payments are measured at their fair values. Where employees are rewarded using stock-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted (Note 27).

(bb) Future standards and amendments

(i) Leases

In January 2016, the IASB issued IFRS 16, "Leases", which will supersede IAS 17, "Leases" and IFRIC 4, "Determining whether an Arrangement contains a Lease". IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15 "Revenue from Contracts with Customers", but the Company does not intend to do so at this time.

(ii) Financial instruments

In July 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establishes an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is applied prospectively. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(iii) Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related Interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time.

(iv) Presentation of financial statements

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing clarifying guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2016 and therefore the Company will apply these amendments in the first quarter of fiscal 2017. The Company does not expect any material impact on its financial statement disclosures as a result of adopting these amendments.

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

4. INVENTORIES

The cost of inventories recognized as an expense during the year was $18,661.2 (2015 – $17,966.7). The Company recorded $1.2 (2015 – $4.4) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 7, 2016. There were no reversals of inventories written down previously (2015 – $ nil).

5. LOANS AND OTHER RECEIVABLES

	May 7, 2016	May 2, 2015
Loans receivable	**$ 76.6**	$ 72.7
Notes receivable and other	**43.3**	40.6
	119.9	113.3
Less amount due within one year	**26.4**	24.8
	$ 93.5	$ 88.5

Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment; bear various interest rates, and have repayment terms up to 10 years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans.

Included in notes receivable and other as at May 7, 2016, is $14.5 (2015 – $15.8) due from a third party related to equipment sales.

Loans receivable from officers and employees of $0.5 (2015 – $0.6) under the Company's share purchase plan are classified as notes receivable and other. Loan repayments will result in a corresponding decrease in notes receivable and other. The loans are non-interest bearing and non-recourse, secured by 20,810 (2015 – 73,662) Non-Voting Class A shares. The market value of the shares at May 7, 2016 was $0.4 (2015 – $2.1).

6. ASSETS HELD FOR SALE

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which the Company has a 41.5 percent ownership, to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres as well as the sale of two parcels of development land owned by Empire. Assets related to this transaction of $358.0 have been included in assets held for sale as at May 7, 2016 (Note 30).

Subsequent to May 7, 2016, Sobeys sold and leased back a property from a third party. Assets of $22.9 have been included in assets held for sale as at May 7, 2016 for this property (Note 30).

During fiscal 2016, Sobeys sold nine (2015 – 22) properties and leased back six (2015 – 22), and also sold equipment. All properties, excluding one, and equipment were classified as assets held for sale. Total proceeds from these transactions were $115.7 (2015 – $61.6), resulting in a pre-tax gain of $23.3 (2015 – $24.9) which has been recognized in the consolidated statements of (loss) earnings.

On July 8, 2014, Sobeys announced that it entered into an agreement with Agropur Cooperative to sell four Safeway dairy manufacturing facilities. In addition, long-term milk, yogurt and ice cream supply agreements came into effect upon transfer of the facilities to Agropur Cooperative. During the year ended May 2, 2015, all of the facilities were sold and aggregate proceeds of $344.2 were attributed to the sales resulting in a gain of $27.0. All proceeds were used to repay bank borrowings. A further sales price adjustment under the terms of the asset purchase agreement was required during fiscal 2016 (Notes 14 and 19).

On December 2, 2014, Sobeys entered into an agreement with Canada Bread Company, Limited to sell two bread manufacturing facilities. During the fourth quarter of fiscal 2015, the two bread manufacturing facilities were sold for proceeds of $27.8, resulting in a gain of $4.4.

As at May 7, 2016, assets held for sale relates to land and buildings expected to be sold in the next twelve months.

7. INVESTMENTS, AT EQUITY

	May 7, 2016	May 2, 2015
Investment in associates		
Crombie REIT	**$ 366.8**	$ 365.6
Canadian real estate partnerships	**148.5**	143.4
U.S. real estate partnerships	**50.2**	59.3
Investment in joint ventures		
Canadian Digital Cinema Partnership ("CDCP")	**9.4**	9.5
Total	**$ 574.9**	$ 577.8

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

	May 7, 2016	May 2, 2015
Crombie REIT	**$ 786.0**	$ 724.3

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

The Company owns 53,866,589 Class B LP units and attached special voting units of Crombie REIT, along with 909,090 REIT units, representing a 41.5% economic and voting interest in Crombie REIT.

During the Company's fiscal 2015, Crombie REIT 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.

The Company's carrying value of its investment in Crombie REIT is as follows:

	May 7, 2016	May 2, 2015
Balance, beginning of year	**$ 365.6**	$ 333.5
Equity earnings	**38.9**	30.6
Share of comprehensive income	**1.4**	1.0
Distributions, net of DRIP	**(42.3)**	(46.9)
Deferral of gains on sale of property	**(4.0)**	(1.0)
Reversal of deferred gain on sale of property to unrelated party	**7.2**	8.3
Interest acquired in Crombie REIT	**–**	40.0
Dilution gain *(Note 19)*	**–**	0.1
Balance, end of year	**$ 366.8**	$ 365.6

The Company's carrying value of its investment in Canadian real estate partnerships is as follows:

	May 7, 2016	May 2, 2015
Balance, beginning of year	**$ 143.4**	$ 143.7
Equity earnings	**38.5**	43.8
Distributions	**(35.6)**	(44.1)
Investment	**2.2**	–
Balance, end of year	**$ 148.5**	$ 143.4

The Company's carrying value of its investment in U.S. real estate partnerships is as follows:

	May 7, 2016	May 2, 2015
Balance, beginning of year	**$ 59.3**	$ 67.3
Equity earnings	**8.2**	10.9
Distributions	**(17.4)**	(27.4)
Foreign currency translation adjustment	**1.3**	7.8
Investment	**1.8**	0.7
Dilution loss *(Note 19)*	**(3.0)**	–
Balance, end of year	**$ 50.2**	$ 59.3

The Company's carrying value of its investment in CDCP is as follows:

	May 7, 2016	May 2, 2015
Balance, beginning of year	**$ 9.5**	$ 9.7
Equity earnings	**0.5**	0.4
Share of comprehensive income	**0.1**	–
Distributions	**(0.7)**	(0.6)
Balance, end of year	**$ 9.4**	$ 9.5

The following amounts represent the revenues, expenses, assets and liabilities of Crombie REIT as at and for the 12 months ended March 31, 2016, as well as a reconciliation of the carrying amount of the Company's investment in Crombie REIT to the net assets attributable to unitholders of Crombie REIT:

	March 31, 2016	March 31, 2015
Revenues	$ 372.3	$ 359.9
Expenses	279.1	289.7
Earnings before income taxes	$ 93.2	$ 70.2
Loss from continuing operations	$ (24.2)	$ (43.5)
Other comprehensive income	2.9	2.0
Total comprehensive loss	$ (21.3)	$ (41.5)

	March 31, 2016	March 31, 2015
Assets		
Current	$ 59.8	$ 35.4
Non-current	3,301.2	3,383.4
Total	$ 3,361.0	$ 3,418.8
Liabilities		
Current	$ 165.9	$ 170.5
Non-current	2,028.5	2,075.1
Total	$ 2,194.4	$ 2,245.6
Unitholders' net assets		
REIT Units	$ 705.9	$ 710.1
Class B LP Units	460.7	463.1
	1,166.6	1,173.2
Less REIT Units	(705.9)	(710.1)
Cumulative changes since acquisition of Crombie REIT		
Variance in timing of distributions	4.0	3.8
Issue costs related to Class B LP Units	12.6	12.6
Deferred gains (net of depreciation addback)	(162.6)	(166.1)
Dilution gains	38.6	38.6
Write off of portion of AOCI on dilution of interest in Crombie REIT	0.7	0.7
Carrying amount attributable to investment in Class B LP Units	354.0	352.7
REIT Units owned by Empire	13.8	13.8
Cumulative equity earnings on REIT Units	1.8	1.1
Cumulative distributions on REIT Units	(2.8)	(2.0)
Carrying amount of investment in Crombie REIT	$ 366.8	$ 365.6

The Company has interests in various Canadian real estate partnerships ranging from 40.7% to 49.0% which are involved in residential property developments in Ontario and Western Canada.

The following amounts represent the revenues, expenses, assets and liabilities of the Canadian real estate partnerships as at and for the 12 months ended March 31, 2016:

	March 31, 2016	March 31, 2015
Revenues	**$ 150.6**	$ 176.8
Expenses	**62.5**	72.4
Net earnings from continuing operations	**$ 88.1**	$ 104.4
Net (loss) earnings from discontinued operations	**(0.4)**	3.9
Net earnings	**$ 87.7**	$ 108.3

	March 31, 2016	March 31, 2015
Current assets	**$ 334.2**	$ 324.2
Current liabilities	**29.9**	27.3
Non-current liabilities	**–**	5.0
Net assets	**$ 304.3**	$ 291.9
Carrying amount of investment	**$ 148.5**	$ 143.4

The Company has interests in various U.S. real estate partnerships ranging from 39.0% to 43.7% which are involved in residential property developments in the United States.

The following amounts represent the revenues, expenses, assets and liabilities of the U.S. real estate partnerships as at and for the 12 months ended March 31, 2016:

	March 31, 2016	March 31, 2015
Revenues	**$ 59.2**	$ 81.9
Expenses	**39.9**	56.9
Net earnings	**$ 19.3**	$ 25.0

	March 31, 2016	March 31, 2015
Current assets	**$ 144.5**	$ 153.1
Current liabilities	**16.3**	17.2
Net assets	**$ 128.2**	$ 135.9
Carrying amount of investment	**$ 50.2**	$ 59.3

8. OTHER ASSETS

	May 7, 2016	May 2, 2015
Restricted cash	**$ –**	$ 4.4
Deferred lease assets	**23.6**	23.1
Derivative assets	**2.1**	0.1
Property deposits	**–**	6.8
Other	**17.1**	14.0
Total	**$ 42.8**	$ 48.4

9. PROPERTY AND EQUIPMENT

May 7, 2016	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	**$ 712.9**	**$ 1,491.9**	**$ 2,472.6**	**$ 691.6**	**$ 211.8**	**$ 5,580.8**
Additions	**68.2**	**55.7**	**159.4**	**32.6**	**326.3**	**642.2**
Additions from business acquisitions	**2.3**	**3.5**	**13.5**	**0.8**	**0.1**	**20.2**
Transfers	**(157.5)**	**(250.4)**	**87.7**	**13.1**	**(241.4)**	**(548.5)**
Disposals and write downs	**(0.8)**	**(5.2)**	**(233.9)**	**(34.2)**	**–**	**(274.1)**
Closing balance	**$ 625.1**	**$ 1,295.5**	**$ 2,499.3**	**$ 703.9**	**$ 296.8**	**$ 5,420.6**
Accumulated depreciation and impairment losses						
Opening balance	**$ –**	**$ 368.4**	**$ 1,387.4**	**$ 324.6**	**$ –**	**$ 2,080.4**
Disposals and write downs	**–**	**(3.5)**	**(225.1)**	**(30.7)**	**–**	**(259.3)**
Transfers	**–**	**(48.3)**	**(42.1)**	**(5.2)**	**–**	**(95.6)**
Depreciation	**–**	**69.9**	**250.8**	**63.5**	**–**	**384.2**
Impairment losses	**–**	**17.4**	**68.6**	**82.4**	**–**	**168.4**
Impairment reversals	**–**	**(0.4)**	**(1.6)**	**(0.2)**	**–**	**(2.2)**
Closing balance	**$ –**	**$ 403.5**	**$ 1,438.0**	**$ 434.4**	**$ –**	**$ 2,275.9**
Net carrying value as at May 7, 2016	**$ 625.1**	**$ 892.0**	**$ 1,061.3**	**$ 269.5**	**$ 296.8**	**$ 3,144.7**

May 2, 2015	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 699.6	$ 1,555.6	$ 2,598.9	$ 669.9	$ 236.7	$ 5,760.7
Additions	51.4	33.7	139.3	57.4	205.2	487.0
Additions from business acquisitions	1.5	–	4.1	0.2	0.2	6.0
Transfers	(6.7)	(30.1)	(19.5)	2.6	(228.3)	(282.0)
Disposals and write downs	(32.9)	(67.3)	(250.2)	(38.5)	(2.0)	(390.9)
Closing balance	$ 712.9	$ 1,491.9	$ 2,472.6	$ 691.6	$ 211.8	$ 5,580.8
Accumulated depreciation and impairment losses						
Opening balance	$ –	$ 355.7	$ 1,416.3	$ 303.1	$ –	$ 2,075.1
Disposals and write downs	–	(34.0)	(241.3)	(27.8)	–	(303.1)
Transfers	–	(25.9)	(48.4)	(17.9)	–	(92.2)
Depreciation	–	72.6	258.2	66.2	–	397.0
Impairment losses	–	–	3.5	1.1	–	4.6
Impairment reversals	–	–	(0.9)	(0.1)	–	(1.0)
Closing balance	$ –	$ 368.4	$ 1,387.4	$ 324.6	$ –	$ 2,080.4
Net carrying value as at May 2, 2015	$ 712.9	$ 1,123.5	$ 1,085.2	$ 367.0	$ 211.8	$ 3,500.4

Finance leases

The Company has various property leases for store locations classified as finance leases with a net carrying value of $5.0 as at May 7, 2016 (2015 – $13.7). These leases are included in buildings.

The Company has equipment leases classified as finance leases with a net carrying value of $30.8 as at May 7, 2016 (2015 – $25.4). These leases are included in equipment.

Assets under construction

During the year, the Company capitalized borrowing costs of $1.9 (2015 – $0.5) on indebtedness related to property and equipment under construction. The Company used a capitalization rate of 4.2 percent (2015 – 4.4 percent).

Security

As at May 7, 2016, the net carrying value of property pledged as security for borrowings is $67.5 (2015 – $75.2).

Impairment of property and equipment

Property and equipment are assessed for impairment at each reporting period at the CGU level, except for those assets which are considered to be corporate assets. Corporate assets that cannot be allocated on a reasonable and consistent basis to individual CGUs are allocated to an operating segment for impairment testing. A CGU has been identified as an individual store. The Company performed the impairment test for property and equipment by estimating the recoverable amount of each CGU to which the property and equipment relate. The recoverable amount was determined to be the higher of FVLCD and VIU. When the recoverable amount of the CGU is less than the carrying amount an impairment loss is recognized. Recoverable amounts based on VIU calculations are determined using cash flow projections from the Company's latest internal forecasts. Key assumptions used in determining VIU include discount rates, growth rates, and expected changes in cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the CGUs. Forecasts are projected beyond three years based on long-term growth rates ranging from 3.0 to 5.0 percent. Discount rates are calculated on a pre-tax basis and range from 7.0 to 10.0 percent.

An impairment loss of $148.6 was recorded during the year ended May 7, 2016 for property and equipment in the Sobeys West operating segment and was recognized within impairment of goodwill and long-lived assets in the consolidated statements of (loss) earnings.

Other impairment losses of $19.8 and reversals of $2.2 were recorded during the year ended May 7, 2016 (2015 – $4.6 and $1.0). All impairment losses and reversals relate to the food retailing segment.

10. INVESTMENT PROPERTY

Investment property is primarily comprised of commercial properties owned by the Company held for income generating purposes, rather than for the principal purpose of the Company's operating activities.

	May 7, 2016	May 2, 2015
Cost		
Opening balance	$ 115.1	$ 121.0
Additions	7.9	6.5
Transfers	(26.3)	(4.6)
Disposals and write downs	(5.3)	(7.8)
Closing balance	$ 91.4	$ 115.1
Accumulated depreciation and impairment losses		
Opening balance	$ 10.9	$ 16.5
Depreciation	0.6	0.8
Transfers	(3.2)	–
Disposals and write downs	0.2	(6.4)
Closing balance	$ 8.5	$ 10.9
Net carrying value	$ 82.9	$ 104.2
Fair value	$ 114.6	$ 152.8

The fair value of investment property is classified as Level 3 on the fair value hierarchy. The fair value represents the price that would be received to sell the assets in an orderly transaction between market participants at the measurement date.

An external, independent valuation company, having appropriate recognized professional qualifications and experience assisted in determining the fair value of investment property at May 7, 2016 and May 2, 2015. Additions to investment property through

acquisition are transacted at fair value and therefore carrying value equals fair value at the time of acquisition. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information or the use of an external independent valuation company.

Rental income from investment property included in the consolidated statements of (loss) earnings amounted to $4.6 for the year ended May 7, 2016 (2015 – $4.9).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to $2.3 for the year ended May 7, 2016 (2015 – $2.0). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to $1.0 for the year ended May 7, 2016 (2015 – $1.0). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of (loss) earnings.

Impairment of investment property follows the same methodology as property and equipment (Note 9). There were no impairment losses or reversals for the year ended May 7, 2016 (2015 – $ nil).

11. INTANGIBLES

May 7, 2016	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	$ 201.0	$ 115.2	$ 306.9	$ 276.2	$ 180.5	$ 200.3	$ 1,280.1
Additions, separately acquired	–	31.0	0.5	–	–	5.5	37.0
Additions from business acquisitions	–	2.9	–	–	–	4.1	7.0
Transfers	–	(2.7)	(2.2)	25.9	(0.7)	(0.3)	20.0
Disposals and write downs	–	(3.4)	–	(43.3)	–	(10.1)	(56.8)
Closing balance	$ 201.0	$ 143.0	$ 305.2	$ 258.8	$ 179.8	$ 199.5	$ 1,287.3
Accumulated amortization and impairment losses							
Opening balance	$ 23.1	$ 46.9	$ 49.0	$ 137.8	$ 11.4	$ 73.9	$ 342.1
Amortization	3.0	14.7	20.6	33.9	7.4	9.4	89.0
Transfers	–	(0.1)	(0.9)	0.4	0.1	1.0	0.5
Disposals and write downs	–	(3.4)	–	(43.3)	–	(9.1)	(55.8)
Closing balance	$ 26.1	$ 58.1	$ 68.7	$ 128.8	$ 18.9	$ 75.2	$ 375.8
Net carrying value as at May 7, 2016	$ 174.9	$ 84.9	$ 236.5	$ 130.0	$ 160.9	$ 124.3	$ 911.5

May 2, 2015	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	$ 215.0	$ 109.8	$ 306.8	$ 250.7	$ 191.3	$ 204.1	$ 1,277.7
Additions, separately acquired	–	12.8	–	–	–	3.1	15.9
Additions from business acquisitions	–	–	0.3	–	–	0.1	0.4
Transfers	(14.0)	(1.1)	(0.2)	27.1	–	0.1	11.9
Disposals and write downs	–	(6.3)	–	(1.6)	(10.8)	(7.1)	(25.8)
Closing balance	$ 201.0	$ 115.2	$ 306.9	$ 276.2	$ 180.5	$ 200.3	$ 1,280.1
Accumulated amortization and impairment losses							
Opening balance	$ 20.9	$ 40.5	$ 30.9	$ 108.9	$ 10.1	$ 72.8	$ 284.1
Amortization	3.0	13.0	20.3	30.3	7.9	10.2	84.7
Impairment reversals	–	–	(2.1)	–	–	–	(2.1)
Transfers	(0.8)	(0.8)	(0.1)	–	–	(2.2)	(3.9)
Disposals and write downs	–	(5.8)	–	(1.4)	(6.6)	(6.9)	(20.7)
Closing balance	$ 23.1	$ 46.9	$ 49.0	$ 137.8	$ 11.4	$ 73.9	$ 342.1
Net carrying value as at May 2, 2015	$ 177.9	$ 68.3	$ 257.9	$ 138.4	$ 169.1	$ 126.4	$ 938.0

In addition to development costs capitalized related to software, the Company included in selling and administrative expenses $7.5 of research and development costs (2015 – $14.4).

Impairment of intangibles follows the same methodology as property and equipment (Note 9). For the year ended May 7, 2016, impairment losses of $ nil (2015 – $ nil) and reversals of $ nil were recorded (2015 – $2.1).

Included in other intangibles at May 7, 2016 are liquor licenses of $4.1. These licenses have options to renew and it is the Company's intention to renew these licenses at each renewal date indefinitely. Therefore, there is no limit to which cash inflows will be generated at each store location for which the license is valid, and these assets are considered to have indefinite useful lives. Also, included in intangibles as at May 7, 2016 and May 2, 2015 are the following amounts with indefinite useful lives: Brand names – $172.8; Loyalty programs – $11.4; and Private labels - $59.5. Loyalty programs and private labels are grouped with other intangibles. All intangibles with indefinite useful lives relate to the food retailing segment. Impairment of these intangibles is assessed at least annually on the same basis as goodwill (Note 12).

12. GOODWILL

	May 7, 2016	May 2, 2015
Opening balance	$ 3,799.2	$ 4,069.7
Additions from business acquisitions	39.8	4.5
Transfer to assets held for sale	–	(276.0)
Impairments	(2,878.5)	–
Other adjustments	1.7	1.0
Closing balance	$ 962.2	$ 3,799.2

Goodwill arising from business acquisitions is allocated at the lowest level within the organization at which it is monitored by management to make business decisions and should not be larger than an operating segment before aggregation. Therefore, goodwill has been allocated to the following five food retailing operating segments:

	May 7, 2016	May 2, 2015
Atlantic	$ 185.0	$ 163.8
Lawtons	15.8	15.4
Ontario	152.5	150.3
Quebec	608.9	608.9
West	–	2,860.8
Total	$ 962.2	$ 3,799.2

Impairment of goodwill

Goodwill arising on business acquisitions is not amortized but is reviewed for impairment on an annual basis, or more frequently, if indicators that goodwill may be impaired exist. The Company's annual review of goodwill was performed during the first quarter of fiscal 2016, and resulted in no impairment being recorded (2015 – $ nil). In performing the review, the Company determined the recoverable amount of the CGU to which goodwill relates based on FVLCD. The key assumption used by management to determine the fair value of the CGU includes industry earnings multiples in a range from 7.0 to 12.5. This key assumption is classified as Level 2 on the fair value hierarchy. During the year, the Company transitioned its annual review of goodwill to the third quarter to better align with the Company's budgeting process (Note 2).

During the third quarter of fiscal 2016, management determined there were indicators of impairment in the West business unit as a result of the significant operational challenges the Company has experienced under the Safeway banner, the outcome of the property and equipment impairment test (Note 9), and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. During the fourth quarter of fiscal 2016 the operational and economic challenges in Western Canada have deepened with increasing markets being impacted. The Company continues to experience significant negative trends in its operating results of the Sobeys West operating segment, and views these trends as indicators of further impairment. Impairment reviews were performed in both the third and fourth quarter by comparing the carrying value of goodwill with the recoverable amount of the CGUs to which goodwill has been allocated.

Recoverable amounts for CGUs or groups of CGUs are based on the higher of VIU and FVLCD. For its third and fourth quarter impairment reviews, management determined the recoverable amount of the CGUs based on VIU calculations which requires the use of certain key assumptions. VIU was calculated from cash flow projections for five years using financial data from the Company's most up-to-date internal forecasts and budgets that were formally approved by management. Given the risks related to expected variations in the cash flows and the uncertainty the Company is experiencing in the West business unit the present value of the expected future cash flows used in the VIU calculation reflects the weighted average of the most probable outcomes. Cash flows beyond the five-year period are extrapolated using the estimated growth rates for the retail grocery industry in the particular market and the long-term economic growth of the country. Management estimates its pre-tax discount rate based on the current market assessment of the time value of money and the risks specific to the CGU. The pre-tax discount rate used ranged from 12.5 percent to 16.5 percent which is derived from the Company's post-tax weighted average cost of capital. The post-tax discount rate used was 10.0 percent. The Company's operating margins are based on past performance and management's expectations for the future. Growth rates used to estimate future performance are generally consistent with forecasts included in industry reports in the relevant market and is in line with market data. The Company has assumed a 3.0 percent annual growth rate for its operating cash flows. A terminal growth rate of 3.0 percent was used to project cash flow beyond five years, which is consistent with forecasts included in industry reports.

The Company recorded a goodwill impairment of $2,878.5 for the Sobeys West operating segment during the year ended May 7, 2016 which was recognized within impairment of goodwill and long-lived assets in the consolidated statements of (loss) earnings.

13. INCOME TAXES

Income tax (recovery) expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

	May 7, 2016	May 2, 2015
(Loss) earnings before income taxes	**$ (2,555.9)**	$ 587.3
Effective combined statutory income tax rate	**26.6%**	26.4%
Income tax (recovery) expense according to combined statutory income tax rate	**(679.9)**	155.0
Income taxes resulting from:		
Non-deductible items	**7.3**	2.5
Impairments of goodwill and long-lived assets	**239.5**	–
Non-taxable items	**(3.1)**	(5.9)
Change in tax rates	**(3.8)**	0.1
Other	**(1.3)**	(1.3)
Total income tax (recovery) expense, combined effective tax rate of 17.3% (2015 – 25.6%)	**$ (441.3)**	$ 150.4

Current year income tax (recovery) expense attributable to net (loss) earnings consists of:

	May 7, 2016	May 2, 2015
Current tax expense	**$ 104.2**	$ 130.9
Deferred tax (recovery) expense:		
Origination and reversal of temporary differences	**(541.7)**	19.4
Change in tax rates	**(3.8)**	0.1
Total	**$ (441.3)**	$ 150.4

Deferred taxes arising from temporary differences and unused tax losses can be summarized as follows:

		Recognized in:			
May 7, 2016	**Opening Balance**	**Other Comprehensive Income and Equity**	**Business Acquisitions**	**Net Loss**	**Closing Balance**
Accounts payable and accrued liabilities	**$ 3.8**	**$ –**	**$ –**	**$ (0.2)**	**$ 3.6**
Employee future benefits	**96.9**	**(4.3)**	**–**	**(0.7)**	**91.9**
Equity	**11.3**	**–**	**–**	**1.0**	**12.3**
Goodwill and intangibles	**(166.1)**	**–**	**(0.5)**	**493.8**	**327.2**
Inventory	**5.2**	**–**	**–**	**(0.3)**	**4.9**
Investments	**(19.8)**	**(2.8)**	**–**	**(10.5)**	**(33.1)**
Long-term debt	**15.6**	**–**	**0.5**	**(1.9)**	**14.2**
Other assets	**(0.5)**	**–**	**–**	**(0.1)**	**(0.6)**
Other long-term liabilities	**16.8**	**–**	**–**	**3.8**	**20.6**
Property, equipment, and investment property	**(93.6)**	**–**	**(0.3)**	**35.5**	**(58.4)**
Provisions	**75.6**	**–**	**–**	**11.3**	**86.9**
Partnership deferral reserve	**2.9**	**–**	**–**	**(11.1)**	**(8.2)**
Losses	**52.3**	**–**	**–**	**24.3**	**76.6**
Other	**(0.4)**	**–**	**–**	**0.6**	**0.2**
	$ –	**$ (7.1)**	**$ (0.3)**	**$ 545.5**	**$ 538.1**
Recognized as:					
Deferred tax assets	**$ 110.9**	**$ (4.3)**	**$ –**	**$ 539.6**	**$ 646.2**
Deferred tax liabilities	**$ (110.9)**	**$ (2.8)**	**$ (0.3)**	**$ 5.9**	**$ (108.1)**

		Recognized in:			
May 2, 2015	Opening Balance	Other Comprehensive Income and Equity	Business Acquisitions	Net Loss	Closing Balance
Accounts payable and accrued liabilities	$ 6.5	$ –	$ –	$ (2.7)	$ 3.8
Employee future benefits	81.0	17.4	–	(1.5)	96.9
Equity	16.0	–	–	(4.7)	11.3
Goodwill and intangibles	(159.7)	–	–	(6.4)	(166.1)
Inventory	4.3	–	–	0.9	5.2
Investments	(13.9)	(0.3)	–	(5.6)	(19.8)
Long-term debt	17.6	–	–	(2.0)	15.6
Other assets	(0.9)	–	–	0.4	(0.5)
Other long-term liabilities	17.6	–	–	(0.8)	16.8
Property, equipment, and investment property	(70.4)	–	–	(23.2)	(93.6)
Provisions	63.6	–	–	12.0	75.6
Partnership deferral reserve	(5.0)	–	–	7.9	2.9
Losses	39.9	–	–	12.4	52.3
Other	5.8	–	–	(6.2)	(0.4)
	$ 2.4	$ 17.1	$ –	$ (19.5)	$ –
Recognized as:					
Deferred tax assets	$ 126.2	$ 17.4	$ –	$ (32.7)	$ 110.9
Deferred tax liabilities	$ (123.8)	$ (0.3)	$ –	$ 13.2	$ (110.9)

All deferred tax assets (including tax losses and other tax credits) have been recognized in the consolidated balance sheets. The amount of deferred tax assets and deferred tax liabilities that are expected to be recovered or settled beyond the next 12 months is $426.6.

14. PROVISIONS

May 7, 2016	Lease Contracts	Legal	Environmental	Restructuring	Sales Price Adjustment	Total
Opening balance	$ 24.7	$ 9.6	$ 40.4	$ 190.3	$ –	$ 265.0
Assumed in a business acquisition	–	–	0.5	–	–	0.5
Provisions made	11.7	5.4	12.1	39.0	70.9	139.1
Provisions used	(10.4)	(6.2)	(1.4)	(66.8)	–	(84.8)
Provisions reversed	(2.7)	(1.1)	(1.7)	(21.8)	–	(27.3)
Change due to discounting	1.5	–	1.5	9.8	1.3	14.1
Closing balance	$ 24.8	$ 7.7	$ 51.4	$ 150.5	$ 72.2	$ 306.6
Current	$ 12.3	$ 7.7	$ 2.2	$ 80.5	$ 72.2	$ 174.9
Non-current	12.5	–	49.2	70.0	–	131.7
Total	$ 24.8	$ 7.7	$ 51.4	$ 150.5	$ 72.2	$ 306.6

Lease contracts

Lease contract provisions are recorded when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the obligations under the contract. The Company records onerous contract provisions for closed store locations where it has entered into a lease contract. The provision is measured at the lower of the expected cost to terminate the lease and the expected net cost of continuing the contract. The net cost is derived by considering both the lease payment and sublease income received. Once the store is closed, a liability is recorded to reflect the present value of the expected liability associated with any lease contract and other contractually obligated costs. Onerous contract provisions for planned store or distribution centre closures as part of the Company's rationalization activities are classified as restructuring provisions and are measured and recorded using the same methodology. Discounting of provisions resulting from lease contracts has been calculated using pre-tax discount rates ranging between 7.0 and 9.0 percent.

Legal costs

Legal provisions relate to claims of $7.7 that are outstanding as at May 7, 2016 that arose in the ordinary course of business.

Environmental costs

In accordance with legal and environmental policy requirements, the Company has recorded provisions for locations requiring environmental restoration. These provisions relate to decommissioning liabilities recorded for gas station locations owned by the Company and other sites where restoration will be incurred at the net present value of the estimated future remediation costs. Discounting of environmental related provisions has been calculated using pre-tax discount rates ranging between 4.0 and 6.0 percent.

Restructuring

Restructuring provisions relate to the Company's initiatives to lower operating costs and improve financial performance. During fiscal 2016, the Company continued to review its business support network and excess distribution centre capacity. As a result, additional provisions have been recorded throughout fiscal 2016. The distribution centres have varying close dates with the final closure expected in fiscal 2018. Discounting of restructuring related provisions has been calculated using a pre-tax discount rate of 7.0 percent.

Sales price adjustment

The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement, long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this asset purchase agreement, should actual purchases for the calendar year ending 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume -driven formula. Given the purchase volumes experienced during the year ended May 7, 2016, management believes that purchases in calendar 2016 are unlikely to meet the minimum volume requirements and, accordingly, have recorded a provision to reflect the estimated adjustment to the sales price. This provision will continue to be monitored and updated for any changes to estimated calendar 2016 purchase volumes. The actual sales price adjustment could vary significantly from this estimate. Discounting of the sales price adjustment provision has been calculated using a pre-tax discount rate of 7.0 percent. See Notes 6 and 19 for further information.

15. LONG-TERM DEBT

	May 7, 2016	May 2, 2015
First mortgage loans, weighted average interest rate 5.39%, due 2016 – 2033	**$ 14.8**	$ 22.8
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	**100.0**	100.0
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	**175.0**	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	**125.0**	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	**150.0**	150.0
Sinking fund debenture, weighted average interest rate 11.63%, due 2016	**5.6**	6.2
Series 2013-1 Notes, interest rate 3.52%, due August 8, 2018	**500.0**	500.0
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	**500.0**	500.0
Senior unsecured notes, floating interest rate tied to bankers' acceptance rate, due July 14, 2016	**300.0**	300.0
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	**159.6**	152.2
Credit facilities, due November 4, 2017, floating interest rate tied to bankers' acceptance rates	**–**	221.8
Credit facilities, due November 4, 2020, floating interest rate tied to bankers' acceptance rates	**290.0**	–
	2,320.0	2,253.0
Unamortized transaction costs	**(25.2)**	(34.7)
Finance lease obligations, weighted average interest rate 5.85%, due 2016 – 2040	**58.1**	65.8
	2,352.9	2,284.1
Less amount due within one year	**341.4**	53.9
	$ 2,011.5	$ 2,230.2

First mortgage loans are secured by land, buildings and specific charges on certain assets. Finance lease obligations are secured by the related finance lease asset. Medium term notes and Series 2013-1 and 2013-2 Notes are unsecured.

Sinking fund debenture payments are required on an annual basis. The proportionate share of related debt is retired with these repayments.

On November 4, 2013, the Company extended the term of its credit facility to a maturity date of November 4, 2017. On June 6, 2014, an amendment was made to the credit facility to reduce the amount available from $450.0 to $250.0. On April 22, 2016, the Company further extended the term of its credit facility to a maturity date of November 4, 2020. As of May 7, 2016, the outstanding amount of the credit facility was $90.0. Interest payable fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or the London Interbank Offered Rate ("LIBOR").

Pursuant to an agreement dated April 29, 2016, Sobeys amended and restated its revolving term credit facility ("RT Facility"). The principal amount was increased from $450.0 to $650.0 and Sobeys' previous non-revolving, amortizing term credit facility was fully repaid and cancelled. As of May 7, 2016, the outstanding amount of the RT Facility was $200.0, and Sobeys had issued $54.5 in letters of credit against the RT Facility (2015 – $57.3). Interest payable on the RT Facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or LIBOR, and the facility matures on November 4, 2020.

On July 14, 2014, Sobeys completed a private placement of $300.0 aggregate principal amount of floating rate senior unsecured notes, due July 14, 2016. The senior unsecured notes bear an interest rate equal to the three-month bankers' acceptance rate plus 63 basis points, to be set quarterly. The net proceeds were used to repay outstanding debt on a credit facility. Deferred financing fees in the amount of $0.9 were incurred on the draw down of the senior unsecured notes and have been offset against long-term debt amounts for presentation purposes.

Principal debt retirement in each of the next five fiscal years is as follows:

2017	$	329.8
2018		104.8
2019		510.0
2020		18.5
2021		295.9
Thereafter		1,061.0

Finance lease liabilities

Finance lease liabilities are payable in each of the next five fiscal years as follows:

	Future Minimum Lease Payments		Interest		Present Value of Minimum Lease Payments	
2017	$	11.6	$	3.1	$	14.7
2018		9.3		2.5		11.8
2019		7.4		2.0		9.4
2020		6.2		1.6		7.8
2021		4.0		1.3		5.3
Thereafter		19.6		7.6		27.2
Total	$	58.1	$	18.1	$	76.2

During fiscal 2016, the Company increased its finance lease obligation by $3.7 (2015 – $5.8) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

16. OTHER LONG-TERM LIABILITIES

	May 7, 2016		May 2, 2015	
Deferred lease obligation	**$**	**97.6**	$	89.9
Deferred revenue		**5.5**		5.6
Other		**5.6**		11.4
Total	**$**	**108.7**	$	106.9

17. EMPLOYEE FUTURE BENEFITS

The Company has a number of defined contribution, defined benefit and multi-employer plans providing pension and other post-retirement benefits to most of its employees.

Defined contribution pension plans

The contributions required by the employee and the employer are specified. The employee's pension depends on what level of retirement income (for example, annuity purchase) that can be achieved with the combined total of employee and employer contributions and investment income over the period of plan membership, and the annuity purchase rates at the time of the employee's retirement.

Defined benefit pension plans

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, but the employer contributions fund the balance. The employer contributions are not specified or defined within the plan text, they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation.

The defined benefit plan typically exposes the Company to actuarial risks such as interest rate risk, mortality risk and salary risk.

Interest rate risk

The present value of the defined benefit liability is calculated using a discount rate that reflects the average yield, as at the measurement date, on high quality corporate bonds of similar duration to the plans' liabilities. A decrease in the market yield on high quality corporate bonds will increase the Company's defined benefit liability.

Mortality risk

The present value of the defined benefit plan is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salary of the plan participants. As such, an increase in the salary of plan participants will increase the plan's liability.

The Company uses either January 1 or December 31 as an actuarial valuation date and May 1 as a measurement date for accounting purposes, for its defined benefit pension plans.

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plans	December 31, 2013	December 31, 2016
Senior Management Pension Plans	December 31, 2013	December 31, 2016
Other Benefit Plans	January 1, 2016	May 1, 2018

Multi-employer plans

The Company participates in various multi-employer pension plans which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. Approximately 16 percent of employees in the Company and of its franchisees and affiliates participate in these plans. Defined benefit multi-employer pension plans are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plans is not available due to the size and number of contributing employers in the plans. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements. The contributions made by the Company to multi-employer plans are expensed as contributions are due.

During the year ended May 7, 2016, the Company recognized an expense of $44.4 (2015 – $47.7) in operating loss, which represents the contributions made in connection with multi-employer pension plans. During fiscal 2017, the Company expects to continue to make contributions into these multi-employer pension plans.

Other benefit plans

The Company also offers certain employee post-retirement and post-employment benefit plans which are not funded and include health care, life insurance and dental benefits.

Defined contribution plans

The total expense, and cash contributions, for the Company's defined contribution plans was $30.3 for the year ended May 7, 2016 (2015 – $29.4).

Defined benefit plans

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Defined benefit obligation				
Balance, beginning of year	**$ 904.8**	$ 841.5	**$ 180.7**	$ 174.5
Current service cost, net of employee contributions	**4.4**	3.8	**3.8**	3.6
Interest cost	**30.7**	34.4	**6.4**	7.3
Employee contributions	**–**	0.1	**–**	–
Benefits paid	**(59.7)**	(56.4)	**(6.8)**	(6.8)
Past service costs	**–**	0.5	**–**	–
Past service costs – curtailments	**(9.1)**	(6.6)	**(1.3)**	(4.4)
Settlements	**(2.2)**	(7.3)	**–**	–
Remeasurement – actuarial losses (gains) included in other comprehensive (loss) income	**2.3**	94.8	**(30.2)**	6.5
Balance, end of year	**$ 871.2**	$ 904.8	**$ 152.6**	$ 180.7

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Plan assets				
Fair value, beginning of year	**$ 734.4**	$ 722.4	**$ –**	$ –
Interest income on plan assets	**24.7**	29.7	**–**	–
Remeasurement return on plan assets (excluding amount in net interest)	**(17.8)**	40.4	**–**	–
Employer contributions	**9.3**	8.9	**6.8**	6.8
Employee contributions	**–**	0.1	**–**	–
Benefits paid	**(59.7)**	(56.4)	**(6.8)**	(6.8)
Settlements	**(2.2)**	(8.2)	**–**	–
Administrative costs	**(1.7)**	(2.5)	**–**	–
Fair value, end of year	**$ 687.0**	$ 734.4	**$ –**	$ –

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Funded status				
Total fair value of plan assets	**$ 687.0**	$ 734.4	**$ –**	$ –
Present value of unfunded obligations	**(93.6)**	(91.2)	**(152.6)**	(180.7)
Present value of partially funded obligations	**(777.6)**	(813.6)	**–**	–
Accrued benefit liabilities	**$ (184.2)**	$ (170.4)	**$ (152.6)**	$ (180.7)

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Expenses				
Current service cost, net of employee contributions	**$ 4.4**	$ 3.8	**$ 3.8**	$ 3.6
Net interest on net defined benefit liability	**6.0**	4.7	**6.4**	7.3
Administrative costs	**1.7**	2.5	**–**	–
Actuarial gains recognized	**–**	–	**–**	(0.2)
Past service costs	**–**	0.5	**–**	–
Past service costs – curtailments	**(9.1)**	(6.6)	**(1.3)**	(4.4)
Settlement loss	**–**	0.9	**–**	–
Costs	**$ 3.0**	$ 5.8	**$ 8.9**	$ 6.3

Current and past service costs have been recognized within selling and administrative expenses, whereas interest costs and return on plan assets (excluding amounts in net interest costs) have been recognized within finance costs, net in the consolidated statements of (loss) earnings.

Actuarial gains and losses recognized directly in other comprehensive (loss) income:

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Remeasurement effects recognized in other comprehensive (loss) income				
Return on plan assets (excluding amounts in net interest)	**$ 17.8**	$ (40.4)	$ –	$ –
Actuarial loss (gain) – experience changes	**0.8**	(0.5)	(34.6)	(9.5)
Actuarial loss – financial assumptions	**1.5**	95.3	4.4	16.2
Remeasurement effects recognized in other comprehensive (loss) income	**$ 20.1**	$ 54.4	$ (30.2)	$ 6.7

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 7, 2016):

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Discount rate	**3.50%**	3.50%	**3.50%**	3.25%
Rate of compensation increase	**3.50%**	3.50%		

For measurement purposes, a 6.00 percent fiscal 2016 annual rate of increase in the per capita cost of covered health care benefits was assumed (2015 – 7.00 percent). The cumulative rate expectation to 2020 and thereafter is 5.00 percent.

These assumptions were developed by management under consideration of expert advice provided by independent actuarial appraisers. These assumptions have led to the amounts determined as the Company's defined benefit obligations and should be regarded as management's best estimate. However, the actual outcome may vary. Estimation uncertainties exist especially in regard to medical cost trends, which may vary significantly in future appraisals of the Company's defined benefit and other benefit obligations.

The table below outlines the sensitivity of the fiscal 2016 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	Pension Benefit Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost[1]	Benefit Obligations	Benefit Cost[1]
Discount rate[2]	3.50%	3.50%	3.50%	3.50%
Impact of: 1% increase	$ (109.6)	$ (4.2)	$ (19.7)	$ 0.2
Impact of: 1% decrease	$ 138.2	$ 3.0	$ 24.5	$ (0.4)
Growth rate of health care costs[3]			6.00%	6.00%
Impact of: 1% increase			$ 13.5	$ 1.4
Impact of: 1% decrease			$ (11.2)	$ (1.2)

(1) Reflects the impact on the current service cost, interest cost, and net interest on defined benefit liability (asset).

(2) Based on a weighted average of discount rates related to all plans.

(3) Gradually decreasing to 5.00 percent in 2020 and remaining at that level thereafter.

The asset mix of the defined benefit pension plans as at year end is as follows:

	May 7, 2016	May 2, 2015
Canadian equity funds	**10.3%**	18.2%
Foreign equity funds	**8.6%**	20.4%
Fixed income funds	**80.9%**	60.5%
Net working capital	**0.2%**	0.9%
Total investments	**100.0%**	100.0%

Within these securities are investments in Empire Non-Voting Class A shares. The pro-rata market value of these shares at year end is as follows:

	May 7, 2016	% of Plan Assets	May 2, 2015	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	**$ 10.8**	**1.6%**	$ 22.3	3.0%

All of the securities are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The actual return on plan assets was $5.2 for the year ended May 7, 2016 (2015 – $67.6).

Management's best estimate of contributions expected to be paid to the defined benefit pension plans during the annual period beginning on May 8, 2016 and ending on May 6, 2017 is $10.0.

18. CAPITAL STOCK

	Number of Shares	
Authorized	May 7, 2016	May 2, 2015
2002 Preferred shares, par value of $25 each, issuable in series	**991,980,000**	991,980,000
Non-Voting Class A shares, without par value	**768,105,849**	771,132,168
Class B common share, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding	Number of Shares	May 7, 2016	May 2, 2015
Non-Voting Class A	**173,537,901**	**$ 2,037.8**	$ 2,102.1
Class B common	**98,138,079**	**7.3**	7.3
Total		**$ 2,045.1**	$ 2,109.4

Under certain circumstances, where an offer, as defined in the share conditions, is made to purchase Class B common shares, the holders of the Non-Voting Class A shares shall be entitled to receive a follow-up offer at the highest price per share paid, pursuant to such offer to purchase Class B common shares.

During fiscal 2016, the Company paid common dividends of $109.4 (2015 – $99.7) to its equity holders. This represents a payment of $0.40 per share (2015 – $0.36 per share) for common shareholders.

Share split

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

Normal course issuer bid

On March 12, 2015, the Company filed a notice of intent with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 1,788,584 Non-Voting Class A shares, or 5,365,752 Non-Voting Class A shares post-share split, representing approximately three percent of those outstanding. Purchases commenced on March 17, 2015, and terminated by March 16, 2016. During the second quarter of fiscal 2016, the Company purchased for cancellation 5,365,752 Non-Voting Class A shares which fulfilled the normal course issuer bid. The purchase price was $148.1 of which $64.8 of the purchase price was accounted for as a reduction to share capital and the remainder as a reduction to retained earnings.

On March 14, 2016, the Company filed a notice of intent with the TSX to purchase for cancellation up to 5,206,137 Non-Voting Class A shares, representing approximately three percent of those outstanding, subject to obtaining regulatory approval. The purchases will be made through the facilities of the TSX. The price the Company will pay for any such shares will be the market price at the time of acquisition. Purchases commenced on March 17, 2016, and shall terminate not later than March 16, 2017. Empire has not repurchased any Non-Voting Class A shares since the date of notice.

During the year ended May 2, 2015, 1,548,070 Class B common shares were converted into 1,548,070 Non-Voting Class A shares.

19. OTHER (LOSS) INCOME, NET

	May 7, 2016	May 2, 2015
Net (loss) gain on disposal of assets	$ (39.6)	$ 66.9
Lease revenue from owned property	31.7	31.4
Dilution (losses) gains	(3.0)	0.1
Total	$ (10.9)	$ 98.4

As discussed in Note 14, management has recognized a loss on sale of $70.9 related to the disposed assets based on its sales price adjustment under the terms of the asset purchase agreement.

20. EMPLOYEE BENEFITS EXPENSE

	May 7, 2016	May 2, 2015
Wages, salaries and other short-term employment benefits	$ 3,058.0	$ 3,067.8
Post-employment benefits	29.8	29.5
Termination benefits	3.6	5.8
Total	$ 3,091.4	$ 3,103.1

21. FINANCE COSTS, NET

	May 7, 2016	May 2, 2015
Finance income		
Interest income from cash and cash equivalents	$ 1.4	$ 1.4
Investment income	1.2	1.2
Accretion income	0.7	–
Total finance income	3.3	2.6
Finance costs		
Interest expense on financial liabilities measured at amortized cost	113.8	136.7
Fair value losses (gains) on forward contracts	0.2	(0.5)
Losses on cash flow hedges reclassified from other comprehensive income (loss)	0.2	0.6
Net pension finance costs	12.4	12.0
Accretion expense on provisions	14.1	8.9
Total finance costs	140.7	157.7
Finance costs, net	$ 137.4	$ 155.1

22. EARNINGS PER SHARE

	May 7, 2016	May 2, 2015
Weighted average number of shares used in basic earnings per share	273,851,466	276,987,717
Shares deemed to be issued for no consideration in respect of stock-based payments	195,738	167,385
Weighted average number of shares used in diluted earnings per share	274,047,204	277,155,102

Due to the Company's reported net loss for the 53 weeks ended May 7, 2016, the weighted average number of shares used for the purpose of basic and diluted earnings per share is equal, as the impact of all potential common shares would be anti-dilutive.

23. BUSINESS ACQUISITIONS

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

The following table represents the amounts of identifiable assets and liabilities from resulting acquisitions for the year ended May 7, 2016 and May 2, 2015:

	May 7, 2016	May 2, 2015
Stores and retail gas locations		
Receivables	$ 12.0	$ –
Inventories	17.5	5.2
Property and equipment	20.2	6.0
Intangibles	7.0	0.1
Goodwill	39.8	4.5
Provisions	(0.5)	(0.1)
Other liabilities	(5.3)	(4.3)
	90.7	11.4
Prescription files		
Intangibles	–	0.3
Cash consideration	$ 90.7	$ 11.7

From the date of acquisition, the businesses acquired contributed sales of $207.6 and net earnings of $1.8 for the year ended May 7, 2016.

Co-op Atlantic acquisition

On May 12, 2015 an agreement to purchase certain assets and assume select liabilities of Co-op Atlantic's food and fuel business for $24.5 plus standard working capital adjustments and holdbacks was approved by Co-op Atlantic's member-owners. The agreement provides for the purchase of five full service grocery stores, five fuel stations (two co-located with grocery stores), other real estate assets, and other assets and select liabilities. On June 12, 2015, regulatory clearance was obtained from the Competition Bureau and the transaction closed effective June 21, 2015.

During fiscal 2016, management finalized the purchase price allocation related to the Co-op Atlantic acquisition. As a result, the consolidated balance sheet as at May 7, 2016 includes the following fair value of the identifiable assets acquired and liabilities assumed:

Receivables	$ 11.8
Inventories	9.4
Property and equipment	7.8
Intangibles	0.9
Provisions	(0.5)
Other liabilities	(4.8)
Total identifiable net assets	$ 24.6

Excess consideration paid over identifiable net assets acquired allocated to goodwill	$ 16.8

The goodwill recognized is attributable mainly to the expected synergies from integration and the expected future growth potential in wholesale operations. Goodwill of $12.6 is deductible for income tax purposes.

If the acquisition had occurred on May 3, 2015, management estimates that pro forma consolidated sales would have been $24,637.2 and pro forma consolidated net loss would have been $(2,113.5) for the 53 weeks ended May 7, 2016. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisitions had occurred on May 3, 2015.

Acquisition costs of $0.6 relating to external legal and other costs were incurred during the 53 weeks ended May 7, 2016 and have been included in selling and administrative expenses in the consolidated statements of (loss) earnings.

24. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

Franchisees and affiliates

Sobeys is party to a number of franchise and operating agreements as part of its business model. These agreements contain clauses which require the Company to provide support to franchisee and affiliate operators to offset or mitigate retail store losses, reduce store rental payments, minimize the impact of promotional pricing, and assist in covering other store related operating expenses. Not all of the financial support noted above will apply in each instance as the provisions of the agreements vary. The Company will continue to provide financial support pursuant to the franchise and operating agreements in future years.

Sobeys has a guarantee contract under the terms of which, should certain franchisees and affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 or 9.9 percent (2015 – $7.0 or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 7, 2016, the amount of the guarantee was $7.0 (2015 – $7.0).

Sobeys has guaranteed certain equipment leases of its franchisees and affiliates. Under the terms of the guarantee should franchisees and affiliates be unable to fulfill their equipment lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $145.0 on a cumulative basis. Sobeys approves each of the contracts.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain franchisees and affiliates for the purchase and installation of equipment. Under the terms of the contract, should franchisees and affiliates be unable to fulfill their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 or 10.0 percent (2015 – $6.0 or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain franchisees and affiliates. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SEs. As at May 7, 2016, the amount of the guarantee was $6.0 (2015 – $6.0).

Other

At May 7, 2016, the Company was contingently liable for letters of credit issued in the aggregate amount of $66.6 (2015 – $69.8).

Sobeys, through its subsidiaries, has guaranteed the payment of obligations under certain commercial development agreements. As at May 7, 2016, Sobeys has guaranteed $43.5 in obligations related to these agreements.

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys guaranteed to the landlord the performance, by SERCA Foodservice Inc., of all its obligations under the lease. The remaining term of the lease is four years with an aggregate obligation of $13.4 (2015 – $16.5). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Operating leases, as lessee

The Company leases various retail stores, distribution centres, offices and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options and bases on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 7, 2016 is approximately $4,043.8. This reflects a gross lease obligation of $4,965.6 reduced by expected sub-lease income of $921.8. The net commitments over the next five fiscal years are:

	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2017	$ 246.0	$ 351.5	$ 127.5	$ 127.5
2018	229.8	326.0	127.1	127.1
2019	211.8	298.4	122.3	122.3
2020	195.5	275.9	122.0	122.0
2021	171.5	245.5	121.7	121.7
Thereafter	928.2	1,407.3	1,440.4	1,440.4

The Company recorded $542.3 (2015 – $517.4) as an expense for minimum lease payments for the year ended May 7, 2016 in the consolidated statements of (loss) earnings. The expense was offset by sub-lease income of $168.2 (2015 – $161.8), and a further $12.3 (2015 – $11.5) of expense was recognized for contingent rent.

Operating leases, as lessor

The Company also leases most investment properties under operating leases. These leases have varying terms, escalation clauses, renewal options and bases on which contingent rent is receivable.

Rental income for the year ended May 7, 2016 was $31.4 (2015 – $29.7) and was recognized as other (loss) income, net in the consolidated statements of (loss) earnings. In addition, the Company recognized $0.3 of contingent rent for the year ended May 7, 2016 (2015 – $1.7).

The lease payments expected to be received over the next five fiscal years are:

	Third Parties
2017	$ 25.6
2018	22.3
2019	19.8
2020	16.6
2021	14.7
Thereafter	89.8

Contingent liabilities

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to Lumsden Brothers Limited, a wholesale subsidiary of Sobeys, and the Goods and Service Tax ("GST"). The reassessment related to GST on sales of tobacco products to status Indians. CRA asserts that Sobeys was obliged to collect GST on sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was $13.6. Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. The matter is still under dispute and Sobeys has filed a Notice of Appeal with the Tax Court of Canada. Accordingly, Sobeys has not recorded in its statements of (loss) earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as an other long-term receivable from CRA pending resolution of the matter.

There are various claims and litigation, with which the Company is involved, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

25. FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, receivables, loans and other receivables, derivative contracts and guarantees.

The Company's maximum exposure to credit risk corresponds to the carrying amount for all cash and cash equivalents, loans and receivables, and guarantee contracts for franchisees and affiliates (Note 24).

The Company mitigates credit risk associated with its trade receivables and loans receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. The Company regularly monitors collection performance and pledged security for all of its receivables and loans and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building, as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with counterparties that are dual rated and have a credit rating of "A" or better from a recognized credit rating agency to minimize credit risk.

Receivables are substantially comprised of balances due from independent accounts, franchisee or affiliate locations as well as rebates and allowances from vendors. The due date of these amounts can vary by agreement but in general balances over 30 days are considered past due. The aging of the receivables is as follows:

	May 7, 2016	May 2, 2015
0 – 30 days	**$ 398.5**	$ 372.9
31 – 90 days	**43.7**	54.4
Greater than 90 days	**73.1**	94.2
Total receivables before allowance for credit losses	**515.3**	521.5
Less: allowance for credit losses	**(25.9)**	(21.8)
Receivables	**$ 489.4**	$ 499.7

Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses in the consolidated statements of (loss) earnings. Receivables are classified as current on the consolidated balance sheet as of May 7, 2016.

Allowance for credit losses is reviewed at each balance sheet date. An allowance is taken on receivables from independent accounts, as well as receivables, loans and other receivables from franchisee or affiliate locations and is recorded as a reduction to its respective receivable account on the consolidated balance sheets. The Company updates its estimate for credit losses based on past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchisee or affiliate locations. Current and long-term receivables, loans and other receivables are reviewed on a regular bas is and are written-off when collection is considered unlikely. The change in allowance for credit losses is recorded as selling and administrative expenses in the consolidated statements of (loss) earnings and is presented as follows:

	May 7, 2016	May 2, 2015
Allowance, beginning of year	**$ 21.8**	$ 20.3
Provision for losses	**10.2**	12.5
Recoveries	**(3.1)**	(4.0)
Write-offs	**(3.0)**	(7.0)
Allowance, end of year	**$ 25.9**	$ 21.8

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

The Company monitors capital markets and the related conditions, and monitors its cash flows in order to assist in optimizing its cash position and evaluate longer term cash and funding requirements. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

The following table summarizes the amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 7, 2016:

	2017	2018	2019	2020	2021	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	$ 2.3	$ 2.3	$ 2.3	$ 12.9	$ –	$ –	$ 19.8
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	2,173.1	–	–	–	–	–	2,173.1
Long-term debt	434.7	203.5	587.3	88.9	359.4	1,541.1	3,214.9
Total	$ 2,610.1	$ 205.8	$ 589.6	$ 101.8	$ 359.4	$ 1,541.1	$ 5,407.8

Fair value of financial instruments

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

The book value of cash and cash equivalents, receivables, current portion of loans and other receivables, and accounts payable and accrued liabilities approximate fair values at the balance sheet dates due to the short-term maturity of these instruments.

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

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

The fair value of derivative financial assets and liabilities, classified as Level 2, is estimated using valuation models that utilize market based observable inputs. Management believes that its valuation technique is appropriate.

There were no transfers between classes of the fair value hierarchy during the year ended May 7, 2016.

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

Long-term debt	**May 7, 2016**	May 2, 2015
Total carrying amount	**$ 2,352.9**	$ 2,284.1
Total fair value	**$ 2,474.9**	$ 2,477.3

As at May 7, 2016, the fair value hierarchy includes financial assets at fair value through profit or loss of $ nil, $2.1, and $ nil for Levels 1, 2 and 3, respectively, (2015 – $4.4, $0.1, and $ nil).

As at May 7, 2016, the fair value hierarchy includes financial assets at available for sale of $24.7 for Level 1 (2015 – $25.1).

As at May 7, 2016, the fair value hierarchy includes financial liabilities at fair value through profit or loss of $ nil, $0.9, and $ nil for Levels 1, 2 and 3, respectively, (2015 – $ nil, $5.5, and $ nil).

Derivative financial instruments

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

Cash flow hedges

The Company's cash flow hedges consist principally of foreign currency swaps, interest rate swaps, and electricity sales agreements. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Interest rate swaps are used to protect against exposure to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates. Electricity sales agreements are used to mitigate the risk of changes in market prices of electricity. Gains and losses are initially recognized directly in other comprehensive income or loss and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the year.

As of May 7, 2016, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of $2.1 (2015 – $0.1) and liabilities of $0.9 (2015 – $5.5).

Cash flows from cash flow hedges are expected to flow over the next four years until fiscal 2020, and are expected to be recognized in net earnings or loss over this period, and, in the case of foreign currency swaps, over the life of the related debt in which a portion of the initial cost is being hedged.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates.

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The Company utilized interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's long-term debt. Hedge accounting treatment resulted in interest expense on the related borrowings being reflected at hedged rates rather than at variable interest rates.

The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Approximately 29.5 percent (2015 – 27.5 percent) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings or loss is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the year. For the year ending May 7, 2016, the Company's average outstanding unhedged floating rate debt was $689.1 (2015 – $1,270.3). An increase (decrease) of 25 basis points would have impacted net (loss) earnings by $1.2 ($1.2) (2015 – $2.2 ($2.2)) as a result of the Company's exposure to interest rate fluctuations on its unhedged floating rate debt.

During the first quarter of fiscal 2015, Sobeys entered into an amortizing interest rate swap for an original notional amount of $598.7 at a fixed interest rate of 1.4 percent effective May 12, 2014 to hedge the interest rate on a portion of Sobeys' non-revolving, amortizing term credit facility. The interest rate swap matured on December 31, 2015.

Foreign currency exchange risk

The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros, British Pounds and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. The Company does not consider its exposure to foreign currency exchange risk to be material.

The Company has entered into foreign currency forward contracts and foreign currency swaps for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in net earnings or loss in future accounting periods.

The Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net (loss) earnings by $ nil ($ nil) (2015 – $ nil ($ nil)) and other comprehensive (loss) income by $6.0 ($6.0) (2015 – $4.2 ($4.2)) for foreign currency derivatives in place at year end.

Sobeys entered into seven Euro/Canadian dollar forward contracts during the first quarter of fiscal 2015 at an approximate Canadian dollar value at inception of $58.0. The forward contracts were entered into to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in Euros. The remaining forward contract has a notional amount of $5.9 and has a maturity date of September 1, 2016.

On January 30, 2015, Sobeys unwound a floating-for-floating currency swap that originated in July 2008 at a gain of $0.7 and entered into a new floating-for-floating currency swap with a fixed rate of 1.2775 Canadian dollar/ U.S. dollar to mitigate the currency risk associated with a U.S. dollar denominated variable rate loan. The terms of the swap match the terms of the variable rate loan.

During the year ended May 7, 2016, Sobeys entered into seven Euro/Canadian dollar forward contracts at an approximate Canadian dollar value at inception of $68.6. The forward contracts were entered into to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in Euros. The remaining forward contracts have a notional amount of $27.6 and have maturities ranging from August 15, 2016 to March 1, 2017.

Market risk

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in the price of the investment. The Company estimates that a 10 percent change in the market value of its investments that trade on a recognized stock exchange would impact net (loss) earnings by $ nil (2015 – $ nil) and other comprehensive income by $2.1 (2015 – $2.1).

26. SEGMENTED INFORMATION

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

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

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

No asymmetrical allocations have been applied between segments.

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

	May 7, 2016	May 2, 2015
Segmented operating (loss) income		
Food retailing	$ (2,509.2)	$ 639.9
Investments and other operations		
Crombie REIT	38.9	30.6
Real estate partnerships	46.7	54.7
Other operations, net of corporate expenses	5.1	17.2
	90.7	102.5
Total	$ (2,418.5)	$ 742.4

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

	May 7, 2016	May 2, 2015
Total operating (loss) income	$ (2,418.5)	$ 742.4
Finance costs, net	137.4	155.1
Total	$ (2,555.9)	$ 587.3

	May 7, 2016	May 2, 2015
Total assets by segment		
Food retailing	$ 8,412.3	$ 10,774.7
Investments and other operations	675.2	686.0
Total	$ 9,087.5	$ 11,460.7

27. STOCK-BASED COMPENSATION

Deferred stock units

Members of the Board of Directors and certain employees may elect to receive all or any portion of their fees or a portion of their compensation in deferred stock units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each directors' or employees' fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company or the employee has retired. The redemption value of a DSU equals the market value of an Empire Non-Voting Class A share at the time of redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase or decrease in the DSU obligation as selling and administrative expenses on the consolidated statements of (loss) earnings. At May 7, 2016, there were 426,792 (2015 – 362,610) DSUs outstanding and the total carrying amount of the liability was $9.0 (2015 – $12.1). During the year ended May 7, 2016, the compensation income (expense) was $2.1 (2015 – $(4.0)).

Performance share unit plan

The Company awarded certain employees a target number of performance share units ("PSUs") that track the Company's Non-Voting Class A share prices over a three-year period. The number of PSUs that vest under an award is dependent on time and the achievement of specific performance measures. On March 9, 2016, as approved by the Human Resources ("HR") Committee, the terms of payout for PSUs changed from cash settled to equity settled. The PSUs were revalued using the market price for the Company's Non-Voting Class A shares on March 8, 2016. Upon vesting, each employee is entitled to receive the Company's Non-Voting Class A shares equal to the number of their vested PSUs. The weighted average fair value of $25.71 per PSU was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$26.80
Expected life	2.75 years
Risk-free interest rate	0.64%
Expected volatility	15.23%
Dividend yield	1.49%

At May 7, 2016, there were 939,555 (2015 – 811,626) PSUs outstanding. During the year ended May 7, 2016, the compensation expense was $1.2 (2015 – $9.2) with the amortization of cost over the vesting period of three years. The total increase in contributed surplus during the year ended May 7, 2016 in relation to the PSU compensation cost was $11.7. For the year ended May 2, 2015, the Company had a liability with a carrying amount of $12.1 related to the PSU compensation costs.

Phantom performance option plan

Prior to fiscal 2014, Sobeys' executives participated in the Sobeys phantom performance option plan ("PPOP") which provided for the issuance of phantom performance options ("PPOs"). The PPOs are subject to a performance period or term of five years. Sobeys PPOs were granted to officers and senior management of Sobeys as approved by the HR Committee. Grants vest over a four-year period at a rate of 25 percent per year. The PPOP contains a liquidity provision which allows for partial payouts of the 'in-the-money' position during the performance period. During fiscal 2014, the plan was converted to a cash settled share based payment with the growth calculation based on the five day average Empire Non-Voting Class A share value following the announcement of the Company's fiscal financial performance compared to the five day average following the announcement of the Company's fiscal financial performance of the preceding year. At May 7, 2016, there were 1,497,393 options (2015 – 2,685,669) outstanding and the carrying amount of the liability associated with these options was $ nil (2015 – $24.6).

Empire restricted share unit plan

Empire created a Restricted Share Unit Plan for certain executives and other employees joining the Company as a result of the acquisition of Canada Safeway to replace lost value of unvested Safeway stock options and stock appreciation rights that existed at the closing of the Canada Safeway acquisition in November 2013. The Restricted Share Unit Plan is a cash settled share based payment that provides a cash payout value of a restricted share unit ("RSU") equal to the market value of a Non-Voting Class A share at the time of vesting assuming reinvestment of any dividends paid since the date of grant. Following closing of the Canada Safeway acquisition in fiscal 2014, the HR Committee issued RSUs based on a Non-Voting Class A share value of $25.33. The granted RSUs vest in stages over three years. The Restricted Share Unit Plan also provides that the HR Committee may allow RSUs to be converted to deferred stock units if the participant elects prior to vesting. At May 7, 2016, there were 260,909 (2015 – 332,400) units outstanding and the carrying amount of the liability associated with these units was $4.9 (2015 – $7.0).

Stock option plan

During fiscal 2016, the Company granted an additional 753,845 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The number of options, weighted average fair value of options, and share price have been restated to reflect the three-for-one share split (Note 18). The weighted average fair value of $4.32 per option was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$30.13
Expected life	7.83 years
Risk-free interest rate	1.01%
Expected volatility	15.32%
Dividend yield	1.33%

The compensation cost for the year ended May 7, 2016 was $3.6 (2015 – $4.0) with amortization of the cost over the vesting period of four years. The total increase in contributed surplus in relation to the stock option compensation cost was $3.6 (2015 – $4.0).

The outstanding options at May 7, 2016 were granted at prices between $17.33 and $30.87 and expire between July 2018 and March 2024 with a weighted average remaining contractual life of 5.89 years. Stock option transactions during fiscal 2016 and 2015 were as follows:

	2016		2015	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**3,364,995**	**$ 24.86**	2,803,098	$ 24.85
Granted	**753,845**	**30.13**	977,967	22.43
Purchased	**–**	**–**	–	–
Exercised	**(135,712)**	**20.09**	(262,722)	17.04
Forfeited	**(327,806)**	**26.90**	(153,348)	22.59
Balance, end of year	**3,655,322**	**$ 25.94**	3,364,995	$ 24.86
Stock options exercisable, end of year	**2,206,342**		694,731	

The following table summarizes information about stock options outstanding at May 7, 2016:

	Options Outstanding			**Options Exercisable**	
Year Granted	**Number of Outstanding Options**	**Weighted Average Remaining Contractual Life(1)**	**Weighted Average Exercise Price**	**Number Exercisable at May 7, 2016**	**Weighted Average Exercise Price**
2011	**14,418**	**2.19**	**17.33**	**14,418**	**17.33**
2012	**10,392**	**3.19**	**18.13**	**10,392**	**18.13**
2013	**14,262**	**4.19**	**17.98**	**14,262**	**17.98**
2014	**2,082,441**	**5.44**	**26.30**	**1,561,831**	**26.30**
2015	**887,940**	**6.14**	**22.43**	**443,971**	**22.43**
2016	**645,869**	**7.16**	**30.11**	**161,468**	**30.11**
Total	**3,655,322**	**5.89**	**$ 25.94**	**2,206,342**	**$ 25.65**

(1) Weighted average remaining contractual life is expressed in years.

Share Purchase Plan

The Company has a share purchase plan for employees of the Company whereby loans are granted to purchase Non-Voting Class A shares.

The Company's current practice is to use only the performance share unit plan and the stock option plan to provide medium-term and long-term incentive for employees. As a result, outstanding loans under the share purchase plan will be repaid at the employees' option, but no later than the expiry date of the loans which were originally set for 10 years.

28. RELATED PARTY TRANSACTIONS

The Company has related party transactions with Crombie REIT and key management personnel. The Company holds a 41.5 percent ownership interest in Crombie REIT and accounts for its investment using the equity method.

On May 30, 2014, Crombie REIT closed a bought-deal public offering of units at a price of $13.25 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased approximately $40.0 of Class B LP units (which are convertible on a one-for-one basis into units of Crombie REIT). Following the conversion of Crombie REIT debentures during fiscal 2015, and accounting for the subscription of Class B LP units, the Company's interest in Crombie REIT decreased from 41.6 to 41.5 percent.

The Company leased certain real property from Crombie REIT during the year at amounts in management's opinion which approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases, which are measured at exchange amounts, totaled approximately $164.9 (2015 – $136.7).

Crombie REIT provides administrative and management services to the Company on a fee for service basis pursuant to a Management Agreement effective January 1, 2016. The Management Agreement replaces the previous arrangement where charges incurred were on a cost recovery basis.

At May 7, 2016, investments included $24.7 (2015 – $25.1) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of $1.2 for the year ended May 7, 2016 (2015 – $1.2). These amounts are included in finance costs, net in the consolidated statements of (loss) earnings.

During the year ended May 7, 2016, Crombie REIT and a wholly-owned subsidiary of the Company negotiated an extension of a rental income guarantee and put option on a property Crombie REIT acquired from the Company's subsidiary in 2006. The rental income guarantee and put option were originally scheduled to mature in March 2016 and have been extended for a period of five years with either party having the ability to terminate the agreements with written notice.

During the year ended May 7, 2016, Sobeys through its wholly-owned subsidiaries, sold and leased back six properties from Crombie REIT. Cash consideration received for the properties sold was $60.7, resulting in a pre-tax gain of $6.5, which has been recognized in the consolidated statements of (loss) earnings.

During the second quarter of fiscal 2015, the Company exited a sub-lease agreement with Crombie REIT and incurred a charge of $2.7. This charge is included in selling and administrative expenses on the consolidated statements of (loss) earnings.

During the year ended May 2, 2015, Sobeys, through its wholly-owned subsidiaries, sold ten properties and leased back eight properties from Crombie REIT. Cash consideration received for the properties sold was $105.8, resulting in a pre-tax gain of $1.2, which has been recognized in the consolidated statements of (loss) earnings. The majority of proceeds received were used to repay bank borrowings.

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and lease back certain properties (Note 30).

Key management personnel compensation

Key management personnel include the Board of Directors and members of the Company's executive team that have authority and responsibility for planning, directing and controlling the activities of the Company.

Key management personnel compensation is comprised of:

	May 7, 2016	May 2, 2015
Salary, bonus and other short-term employee benefits	$ 9.6	$ 17.9
Post-employment benefits	1.9	1.3
Termination benefits	1.5	–
Share-based payments	6.1	14.3
Total	$ 19.1	$ 33.5

Indemnities

The Company has agreed to indemnify its directors, officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

29. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of the Company. There have been no changes to the Company's objectives during the year ended May 7, 2016.

The Company monitors and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

The Company considers its total capitalization to include all interest bearing debt, including bank loans, long-term debt (including the current portion thereof) and shareholders' equity, net of cash and cash equivalents. The calculation is set out in the following table:

	May 7, 2016	May 2, 2015
Long-term debt due within one year	$ 341.4	$ 53.9
Long-term debt	2,011.5	2,230.2
Funded debt	2,352.9	2,284.1
Less cash and cash equivalents	(264.7)	(295.9)
Net funded debt	2,088.2	1,988.2
Shareholders' equity, net of non-controlling interest	3,621.0	5,983.8
Capital under management	$ 5,709.2	$ 7,972.0

Although the Company does not include operating leases in its definition of capital, the Company does give consideration to its obligations under operating leases when assessing its total capitalization.

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and the purchase of land bank sites for future store construction. The Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its investments and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. The cash flow is supplemented, when necessary, through the borrowing of additional debt or the issuance of additional capital stock. No changes were made to these objectives in the current year.

Management monitors certain key ratios to effectively manage capital:

	May 7, 2016	May 2, 2015
Funded debt to total capital[1]	**39.4%**	27.6%
Funded debt to EBITDA[2]	**(1.2)x**	1.9x
EBITDA to interest expense[2]	**(17.1)x**	8.9x

(1) Total capital is funded debt plus shareholders' equity, net of non-controlling interest.

(2) EBITDA and interest expense are comprised of EBITDA and interest expense for each of the 53 and 52 week periods then ended. EBITDA (operating income plus depreciation and amortization of intangibles) and interest expense (interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income) are non-GAAP financial measures. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

As part of existing debt agreements, three financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are: i) adjusted total debt/EBITDA – calculated as net funded debt plus letters of credit, guarantees and commitments divided by EBITDA (as defined by the credit agreements and for the previous 53 and 52 weeks); ii) lease adjusted debt/EBITDAR – calculated as adjusted total debt plus eight times rent divided by EBITDAR (as defined by the credit agreements and for the previous 53 and 52 weeks); and iii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (as defined by the credit agreements and for the previous 53 and 52 weeks). The Company was in compliance with these covenants during the year.

30. SUBSEQUENT EVENTS

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land owned by Empire. Crombie REIT will also invest approximately $58.8 in renovations or expansions of 10 Sobeys retail locations already in Crombie REIT's portfolio. In addition to the cash, Crombie REIT will issue to Sobeys approximately $93.4 in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. Sobeys will subsequently sell its Class B LP units to Empire on a tax deferred basis. Net cash proceeds to Sobeys from these transactions will be approximately $324.6, resulting in a nominal pre-tax gain, which will be used to repay senior unsecured notes coming due. The transaction was approved on June 28, 2016 by the unitholders of Crombie REIT, excluding Empire and its affiliates, and is subject to regulatory approval.

Subsequent to May 7, 2016, Sobeys sold and leased back a property from a third party. Cash proceeds received on the sale was $24.0, resulting in a pre-tax gain of $1.1.

Eleven-Year Financial Review

Year Ended[1]	2016	2015[2]	2014[2]	2013
Financial Results ($ in millions)				
Sales	**$ 24,618.8**	$ 23,928.8	$ 20,957.8	$ 17,343.9
Operating (loss) income[3]	**(2,418.5)**	742.4	326.7	573.2
Finance costs, net	**137.4**	155.1	131.4	55.4
Income tax (recovery) expense	**(441.3)**	150.4	36.3	136.4
Non-controlling interest	**16.4**	17.9	8.0	9.1
Adjusted net earnings from continuing operations[3][4][5]	**410.2**	511.0	390.6	390.7
Net (loss) earnings[4]	**(2,131.0)**	419.0	235.4	379.5
Financial Position ($ in millions)				
Total assets	**9,087.5**	11,460.7	12,236.6	7,140.4
Long-term debt (excluding current portion)	**2,011.5**	2,230.2	3,275.8	915.9
Shareholders' equity[4]	**3,621.0**	5,983.8	5,700.5	3,724.8
Per Share Data on a Fully Diluted Basis ($ per share)				
Adjusted net earnings from continuing operations[4][5]	**1.50**	1.84	1.62	1.91
Net (loss) earnings[4][6]	**(7.78)**	1.51	0.98	1.86
Dividends				
Non-Voting Class A shares	**0.400**	0.360	0.347	0.320
Class B common shares	**0.400**	0.360	0.347	0.320
Book value	**13.33**	21.60	20.59	18.27
Share Price, Non-Voting Class A Shares ($ per share)				
High	**30.79**	31.60	27.75	22.88
Low	**20.23**	21.67	21.68	17.85
Close	**21.09**	29.15	22.88	22.86
Diluted weighted average number of shares outstanding (in millions)	**274.0**	277.2	240.6	204.2

(1) Fiscal years end the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc. Financial data for fiscal 2006 to 2010, with the exception of the balances noted for financial position for fiscal 2010, were prepared using CGAAP and have not been restated to IFRS. Fiscal 2011 and 2016 are 53-week years.

(2) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings.

(3) Certain balances have been reclassified for changes to comparative figures for fiscal 2011. See Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements.

(4) Net of non-controlling interest.

(5) See "Non-GAAP Financial Measures & Financial Metrics" section of the Management's Discussion and Analysis ("MD&A").

(6) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-diluted.

2012	2011	2010	2009	2008	2007	2006
$ 16,249.1	$ 15,956.8	$ 15,516.2	$ 15,015.1	$ 14,065.0	$ 13,366.7	$ 13,063.6
534.3	525.7	479.7	466.2	472.6	431.1	491.4
59.9	75.4	72.5	80.6	105.8	60.1	83.8
122.3	122.0	99.1	115.4	125.9	116.9	153.1
12.7	9.0	5.6	8.3	12.8	55.4	67.1
322.7	303.2	284.5	261.7	242.8	200.1	202.0
339.4	400.6	301.9	264.7	315.8	205.8	296.8
6,913.1	6,518.6	6,248.3	5,891.1	5,729.4	5,241.5	5,051.5
889.1	1,090.3	821.6	1,124.0	1,414.1	792.6	707.3
3,396.3	3,162.1	2,952.4	2,678.8	2,378.8	2,131.1	1,965.2
1.58	1.48	1.39	1.33	1.23	1.01	1.02
1.66	1.96	1.47	1.34	1.60	1.04	1.50
0.300	0.267	0.247	0.233	0.220	0.200	0.187
0.300	0.267	0.247	0.233	0.220	0.200	0.187
16.66	15.49	14.36	13.02	12.03	10.77	9.92
21.00	19.71	17.98	18.26	18.40	15.08	14.78
17.57	17.02	13.23	12.21	11.80	13.16	11.12
19.21	18.05	17.66	16.33	13.08	14.11	14.43
204.2	204.6	205.4	197.4	197.2	197.2	197.3

Glossary

ADJUSTED EBITDA
EBITDA excluding certain items to better analyze trends in performance

ADJUSTED NET EARNINGS
Net (loss) earnings, net of non-controlling interest, excluding excluding certain items to better analyze trends in performance and financial results

BOOK VALUE PER COMMON SHARE
Shareholders' equity, net of non-controlling interest, divided by total common shares outstanding

CAGR
Compound annual growth rate

EBITDA
Net (loss) earnings, before finance costs (net of finance income), income taxes (recovery) expense, depreciation and amortization of intangibles

FREE CASH FLOW
Cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases

FUNDED DEBT
All interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt

GROSS MARGIN
Gross profit divided by sales

GROSS PROFIT
Sales less costs of sales

INTEREST EXPENSE
Interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income

NET FUNDED DEBT TO NET TOTAL CAPITAL RATIO
Net funded debt divided by net total capital

NET FUNDED DEBT
Funded debt less cash and cash equivalents

NET TOTAL CAPITAL
Total capital less cash and cash equivalents

PRIVATE LABEL
A brand of products that is marketed, distributed and owned by the Company

SAME-STORE SALES
Sales from stores in the same location in both reporting periods

TOTAL CAPITAL
Funded debt plus shareholders' equity, net of non-controlling interest

Shareholder and Investor Information

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INVESTOR RELATIONS AND INQUIRIES

Shareholders, analysts and investors should direct their financial inquiries or requests to:

E-mail: investor.relations@empireco.ca

Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CST Trust Company.

TRANSFER AGENT

CST Trust Company
Investor Correspondence
P.O. Box 700, Station B
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MULTIPLE MAILINGS

If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact CST Trust Company at 1-800-387-0825 to eliminate the multiple mailings.

DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2017

Record Date	Payment Date
July 15, 2016	July 29, 2016
October 14, 2016*	October 31, 2016*
January 13, 2017*	January 31, 2017*
April 13, 2017*	April 28, 2017*

* Subject to approval by the Board of Directors

OUTSTANDING SHARES

As at June 28, 2016	
Non-Voting Class A shares	173,537,901
Class B common shares, voting	98,138,079

SHAREHOLDERS' ANNUAL GENERAL MEETING

September 15, 2016 at 11:00 a.m. (ADT)
Cineplex Cinemas
612 East River Road
New Glasgow, Nova Scotia

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

STOCK SYMBOL

Non-Voting Class A shares – EMP.A

AVERAGE DAILY TRADING VOLUME (TSX: EMP.A)

645,810

BANKERS

The Bank of Nova Scotia
Bank of Montreal
Bank of Tokyo Mitsubishi UFJ (Canada)
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank Nederland
Royal Bank of Canada
The Toronto-Dominion Bank
Caisse Centrale Desjardins

SOLICITORS

Stewart McKelvey
Halifax, Nova Scotia

AUDITORS

PricewaterhouseCoopers, LLP
Halifax, Nova Scotia

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