

2014
Annual
report



A stronger
platform
for growth



EMPIRE
COMPANY LIMITED

Company Profile

Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Our key businesses are food retailing and related real estate, through wholly-owned subsidiary Sobeys Inc., and a 41.6% equity accounted interest in Crombie REIT. With \$21 billion in annual sales and \$12.2 billion in assets, Empire and its subsidiaries, including franchisees and affiliates, employ more than 125,000 people.

2014 Financial Highlights

(\$ in millions, except per share amounts)	52 Weeks Ended	52 Weeks Ended	52 Weeks Ended
	May 3, 2014	May 4, 2013	May 5, 2012
Operations			
Sales	\$20,993.0	\$17,400.8	\$16,249.1
Operating income	328.5	573.2	534.3
Adjusted operating income ⁽¹⁾	630.2	553.4	513.9
Net earnings from continuing operations ⁽²⁾	151.0	372.3	339.4
Net earnings ⁽²⁾	235.4	379.5	339.4
Adjusted net earnings from continuing operations ⁽²⁾	383.1	356.8	322.7
Per Share Information			
Net earnings from continuing operations (fully diluted) ⁽²⁾	\$1.88	\$5.47	\$4.99
Net earnings (fully diluted) ⁽²⁾	2.93	5.58	4.99
Adjusted net earnings from continuing operations (fully diluted) ⁽¹⁾⁽²⁾	4.78	5.24	4.74
Book value	61.75	54.82	49.98
Dividends per share ("DPS")	1.04	0.96	0.90

Sales

(\$ in millions)



10-Year Sales CAGR⁽⁴⁾

6.4%

Adjusted Net Earnings from Continuing Operations⁽¹⁾⁽²⁾

(\$ in millions)



10-Year Adjusted Net Earnings⁽¹⁾⁽²⁾ CAGR⁽⁴⁾

8.9%

Dividends

(\$ per share)



10-Year DPS⁽³⁾ CAGR⁽⁴⁾

10.0%

(1) Excludes items which are considered not indicative of underlying business operating performance.

(2) Net of non-controlling interest.

(3) Dividends per share.

(4) Compound Annual Growth Rate.

Forward-Looking Statements

This annual report contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this annual report, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities, may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "intends", "may", "plans", "will", "would" and other similar expressions, or the negative of these terms, are generally indicative of forward-looking statements.

The acquisition of substantially all of the assets and select liabilities of Canada Safeway ULC ("Canada Safeway").

For additional information and a caution on the use of forward-looking information, see the section in Management's Discussion and Analysis ("MD&A") entitled "Forward-Looking Information".

Note: There are measures included in this annual report that do not have a standardized meaning under GAAP. Additional information relating to non-GAAP financial measures is provided in the section of the MD&A entitled "Non-GAAP Financial Measures".

Our Purpose

To improve the lives of Canadians by helping them **Eat Better, Feel Better, Do Better.**

Sobeys created a stronger platform for growth in fiscal 2014 with the acquisition of **Canada Safeway** and the introduction of the **Better Food for All** movement – the next generation of our food-focused, fresh-driven, full service banners. This report takes a look at the key events of the past year and sets out our strategy for long-term value creation.

Our Investment Strengths

- A passion for delivering **Better Food for All**
- National reach and scale
- Well-established, differentiated stores and retail banners
- Modern and scalable infrastructure
- Synergistic acquisition of Canada Safeway
- A strategic relationship with Crombie REIT
- A superior long-term track record of growth

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Letter to shareholders



Fiscal 2014 was a remarkable year for Empire. In November 2013, we completed the largest investment in the Company's history — the \$5.8 billion acquisition of Canada Safeway. The year also marked the introduction of Sobeys' *Better Food for All* movement – the most exciting stage yet in the evolution of our full service format.

From the privatization of Sobeys in 2007 until today, Empire has consistently increased its focus on the businesses we know best – food retailing and related real estate. Our focus continued in fiscal 2014 with the acquisition of Canada Safeway, the sale of Empire Theatres and the consolidation of the Empire and Sobeys senior management teams. Today, Empire Company Limited is essentially a pure play food retailing and related real estate company with 99.9 percent of total sales and 97.1 percent of total assets attributable to these businesses.

The events of the past year solidified our position as a leading national food retailer. With the Canada Safeway acquisition, we secured a leading market share position in Western Canada, including the fast-growing Alberta market.

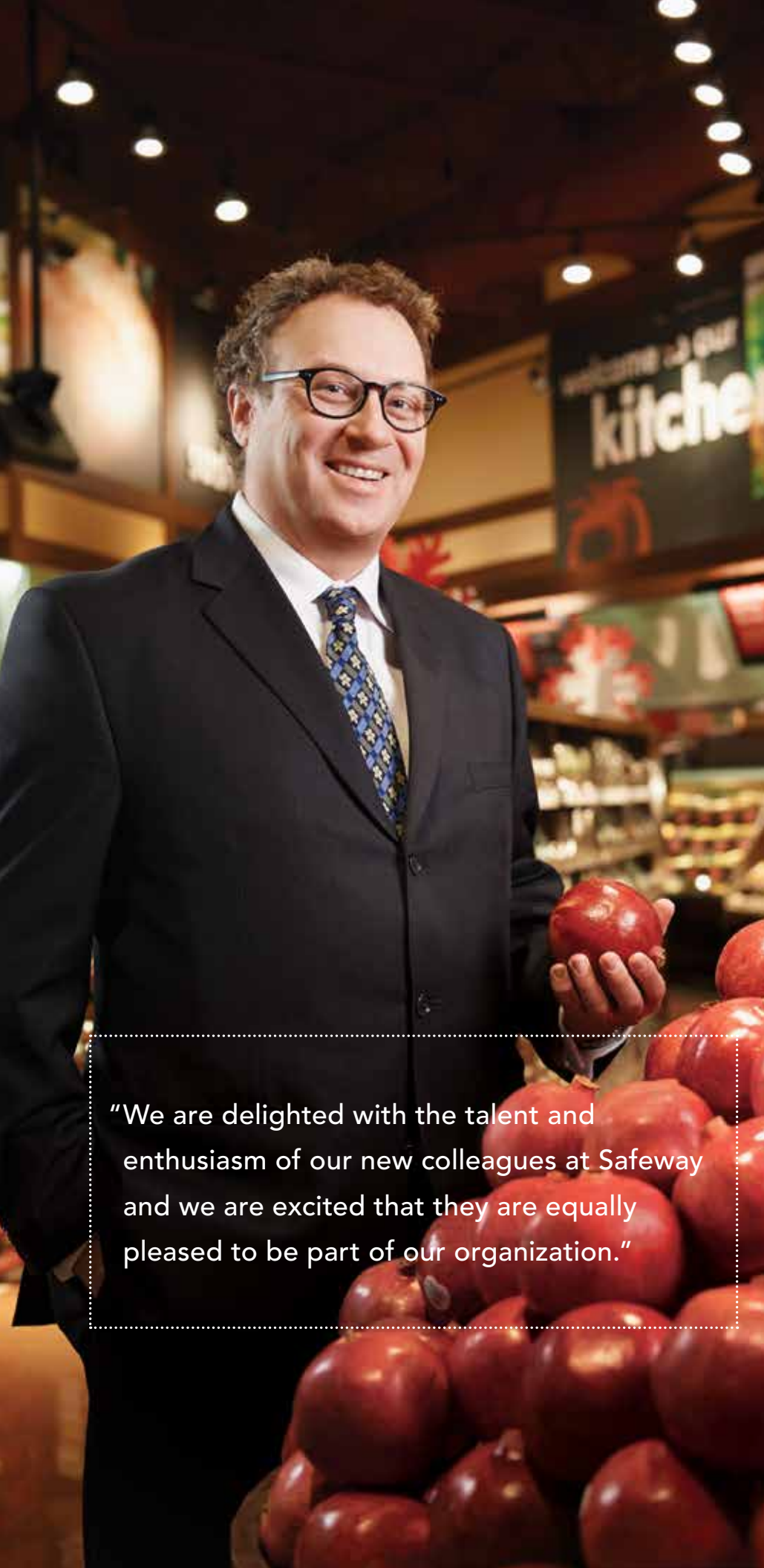
Equally important, Safeway is a leader in the full service segment of the food retailing industry, which lies at the heart of our own growth strategy. Sobeys and Safeway are highly compatible in terms of strategic objectives and corporate culture, with a clear focus on excellence in fresh food and a commitment to exceptional customer service through highly engaged employees. We share many other strengths including high-quality management, committed employees, rigorous cost control, and the popular AIR MILES® rewards program and private label programs. We are delighted with the talent and

enthusiasm of our new colleagues at Safeway and we are excited that they are equally pleased to be part of our organization. We have much to learn from each other and this process is well underway.

Among the measurable benefits of the acquisition are \$200 million in expected annual run-rate cost synergies and earnings accretion that will be realized as we integrate our operations over the next three years. We are on track and committed to realizing these synergies, on time and on target. Our ability to take full advantage of this opportunity is due in no small part to the talent and engagement of our employees and to the investments we have already made in Sobeys' modern and scalable distribution network and IT infrastructure.

The key to success has always depended on differentiating ourselves with value, product and service that is most meaningful to our customers, while remaining competitive on price. The launch of our second major platform for growth in fiscal 2014 – *Better Food for All* – will play a critical role in helping us achieve this commitment.

Our recent experience and research have shown that while most Canadians would like to eat better food than they currently do, they are concerned that healthy and appetizing meals are too costly, too difficult to manage, and too time consuming to prepare.



“We are delighted with the talent and enthusiasm of our new colleagues at Safeway and we are excited that they are equally pleased to be part of our organization.”

Overwhelmed by the choices, our customers are looking for leadership and solutions from people they trust. **Better Food for All** was born from this understanding. Much more than a tagline, it expresses Sobeys' new purpose to be Canada's Better Food Destination by helping Canadians Eat Better, Feel Better and Do Better, every day.

Launched in September 2013 with the assistance of chef and food campaigner Jamie Oliver, **Better Food for All** has received an enthusiastic welcome from our customers. They have noticed the fresh-market environment, the delicious restaurant-quality prepared meals, the abundance of naturally and responsibly sourced foods, and the knowledgeable and enthusiastic employees who are trained to make the **Better Food for All** experience come alive in our stores every day.

To date, eight new concept stores that reflect the new **Better Food for All** positioning have been opened with many more scheduled for conversion or construction over the next year. Sobeys' new banner positioning has been accompanied by the introduction of Sobeys *extra* – our next generation of full service format stores. You can discover more about the **Better Food for All** movement and get a taste of the look and feel of our evolving store concept elsewhere in this report.

The other important business we know and understand, is food-related real estate. More than 50 years ago Frank H. Sobey began realizing the advantage of owning the grocery stores he operated. Today, this continues through the ownership of real estate by Sobeys as well as our 41.6 percent interest in Crombie REIT.

Sixty percent of the real estate acquired by Sobeys in the Canada Safeway acquisition (net of store divestitures) is located in Western Canada's four largest metropolitan areas, with a high proportion in expensive-to-replicate, high-density locations that are highly complementary to Sobeys' store network.

Crombie REIT also benefited substantially from the Canada Safeway acquisition through the sale-leaseback transaction in which 70 Safeway locations were sold to Crombie REIT for \$991 million. As a direct result of the impact of the Canada Safeway acquisition, Crombie REIT achieved investment-grade status, which has significantly improved its access to capital and financial flexibility. We are excited to continue to participate in Crombie REIT's growth story through our equity-accounted ownership interest.

As for the year ahead, we expect the continuation of intense price competition and a highly promotional environment in the Canadian food retailing industry.



The real key to success in our business comes from understanding what matters most to our customers and delivering a differentiated shopping experience that builds strong and enduring relationships. *Better Food For All* ensures our customers experience the best food retail shopping environment in Canada.

Within this market reality, we will continue to offer competitive pricing and maintain our market share. Our ability to do so has been greatly strengthened by the investments we have made over the past few years to secure efficiencies and drive costs out of our business while strengthening business processes. Such efforts continued in fiscal 2014 with the completion of our SAP rollout in Québec and at Thrifty Foods, and the opening of our second automated distribution centre. During the next three years, these investments will be leveraged through the integration of the Safeway business.

As we've said before, being competitive in the markets we serve is just the price of admission in Canada's food retailing industry. The real key to success in our business comes from understanding what matters most to our customers and delivering a differentiated shopping experience that builds strong and enduring relationships. ***Better Food for All*** represents the latest step in this process but our customers will continue to see a similar spirit of customer-focused innovation across all of our full service banners and other retail formats.

In closing, I would like to thank the Board of Directors for their continued stewardship of our Company. In particular, I would like to acknowledge the significant contributions of former President and CEO Paul Sobey, who

retired in fiscal 2014 and whose guidance and insight have been greatly appreciated during the transformative events of fiscal 2014. In addition, I would like to extend our appreciation and best wishes to Rob Sobey, who retired as President and CEO of Lawtons Drugs, as well as Stuart Fraser and all the other employees of Empire Theatres for their contributions to our success over the years.

Finally, I would like to thank our management team and the more than 125,000 employees of Empire and its subsidiaries, franchisees and affiliates, for their hard work, dedication and focus on building a stronger platform for long-term value creation.

Sincerely,

(signed) "Marc Poulin"

Marc Poulin

President and Chief Executive Officer
Empire Company Limited

June 26, 2014

Strategic Priorities

At Sobeys, we always put the customer first while ensuring process and operational excellence. OUR KEY PRIORITIES are:

- Successful integration of Canada Safeway
- *Better Food for All* – A compelling full service offering and shopping experience
- Securing efficiencies through process harmonization and optimized distribution
- Employee training and engagement to deliver best-in-class customer service and loyalty
- Continued intelligent investment and innovation



Empire at a glance



EMPIRE BY THE NUMBERS

1,800+

TOTAL LOCATIONS

38M+

TOTAL SQ. FOOTAGE

800+

COMMUNITIES SERVED

125,000+

PEOPLE

Each of Sobeys' five core formats – Full Service, Fresh, Community, Discount and Convenience – is designed to deliver the optimal product offering in each market segment we serve.

FOOD RETAILING

Empire's food retailing business is carried out through wholly-owned subsidiary Sobeys Inc., which serves the food shopping needs of millions of Canadians with approximately 1,500 corporately owned and franchised retail stores as well as more than 350 retail fuel locations. Sobeys operates in more than 800 communities across Canada.

Sobeys remains focused on improving the product offering, services and merchandising within each of its five core formats. This improvement happens through continuous investment in our store and distribution networks, innovation in marketing and merchandising programs, optimization of business processes, and the training and engagement of our people.

RELATED REAL ESTATE

Empire holds a 41.6 percent equity accounted interest in Crombie REIT, a national Canadian REIT that owns, operates and manages a \$3.9 billion commercial real estate portfolio with a primary holding of retail properties.



TOTAL LOCATIONS BY TERRITORY

409

WESTERN CANADA

335

ONTARIO

655

QUÉBEC

421

ATLANTIC CANADA

WESTERN CANADA

Sobeys

SAFEWAY

THRIFTY FOODS

IGA

Sobeys Liquor
SPIRITS • WINE • COLD BEER

SAFEWAY
WINE & SPIRITS

SAFEWAY
GASOLINE

ONTARIO

Sobeys
extra

Sobeys

FOODLAND

FRESHCO

QUÉBEC

IGA
extra

IGA

RACHELLE BÉRY

BONICHOIX

TRADITION



ATLANTIC CANADA

Sobeys

FOODLAND

Lawtons
DRUGS

Needs
convenience

FastFuel



OUR GEOGRAPHIC REACH

Sobeys goes to market with differentiated banners and five retail formats to serve the needs of our customers across the country. **Full Service** stores meet total shopping requirements with a broad product assortment and a complete range of specialty departments with the support of superior customer service. Our **Fresh** stores meet 'fresh fill-in and today's meal' needs with service and customized offerings. **Community** stores meet the 'routine and fill-in' food shopping occasions of customers in rural and one-store communities. **Discount** stores deliver low prices every day in markets where price is the driving factor for store selection and **Convenience** stores serve our customers who are 'on-the-go'.

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A stronger platform for growth



The Canada Safeway acquisition

Empire's \$5.8 billion acquisition of Canada Safeway in November 2013 solidified Sobeys' position as the second largest food retailer in Canada and facilitated the evolution of Crombie REIT into a truly national retail landlord.

Through this single transaction, we added (net of divestitures), 200 full service format stores, 190 in-store pharmacies, 63 co-located fuel stations, 10 liquor stores, four primary distribution centres and 12 manufacturing facilities to our Western Canadian network. The acquisition also enabled us to establish a leading market share position in Western Canada, including the fast-growing Alberta market.

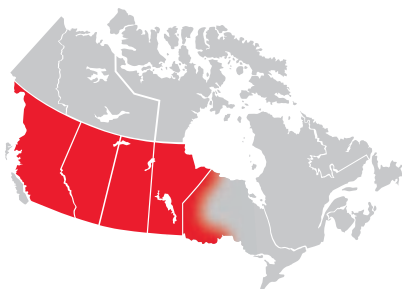
Over the next three years, Sobeys is committed to achieving \$200 million in annual run-rate cost synergies and earnings accretion from the integration of Canada Safeway. This ambitious goal is possible because of the significant investments Sobeys has made in its scalable business processes and systems, as well as information technology infrastructure, over the past few years. Our first step is to achieve systems integration by converting Safeway to our SAP platform and point-of-sale systems. We are on track to achieve \$100 million in annual run-rate cost

synergies by the end of year one through lower cost procurement in both grocery and pharmacy as well as efficiencies in our marketing and procurement operations. In years two and three, we expect to secure an additional \$100 million in annual run-rate cost synergies through more streamlined and cost effective logistics and distribution, further information technology harmonization, continued marketing efficiencies, and by reduced sales, general and administrative costs. Since the \$1.5 billion acquisition of The Oshawa Group in 1998, Sobeys has successfully integrated several acquisitions and established a track record of consistent earnings accretion in the process.

The benefits of the Canada Safeway acquisition go far beyond the numbers, starting with a highly compatible growth strategy and corporate culture. For more than 84 years, Safeway has earned the trust and loyalty of Western Canadian consumers by knowing what they want and delivering a differentiated shopping experience.

No.1

The acquisition of Canada Safeway has given Sobeys a leading market share in Western Canada, including the fast-growing Alberta market.



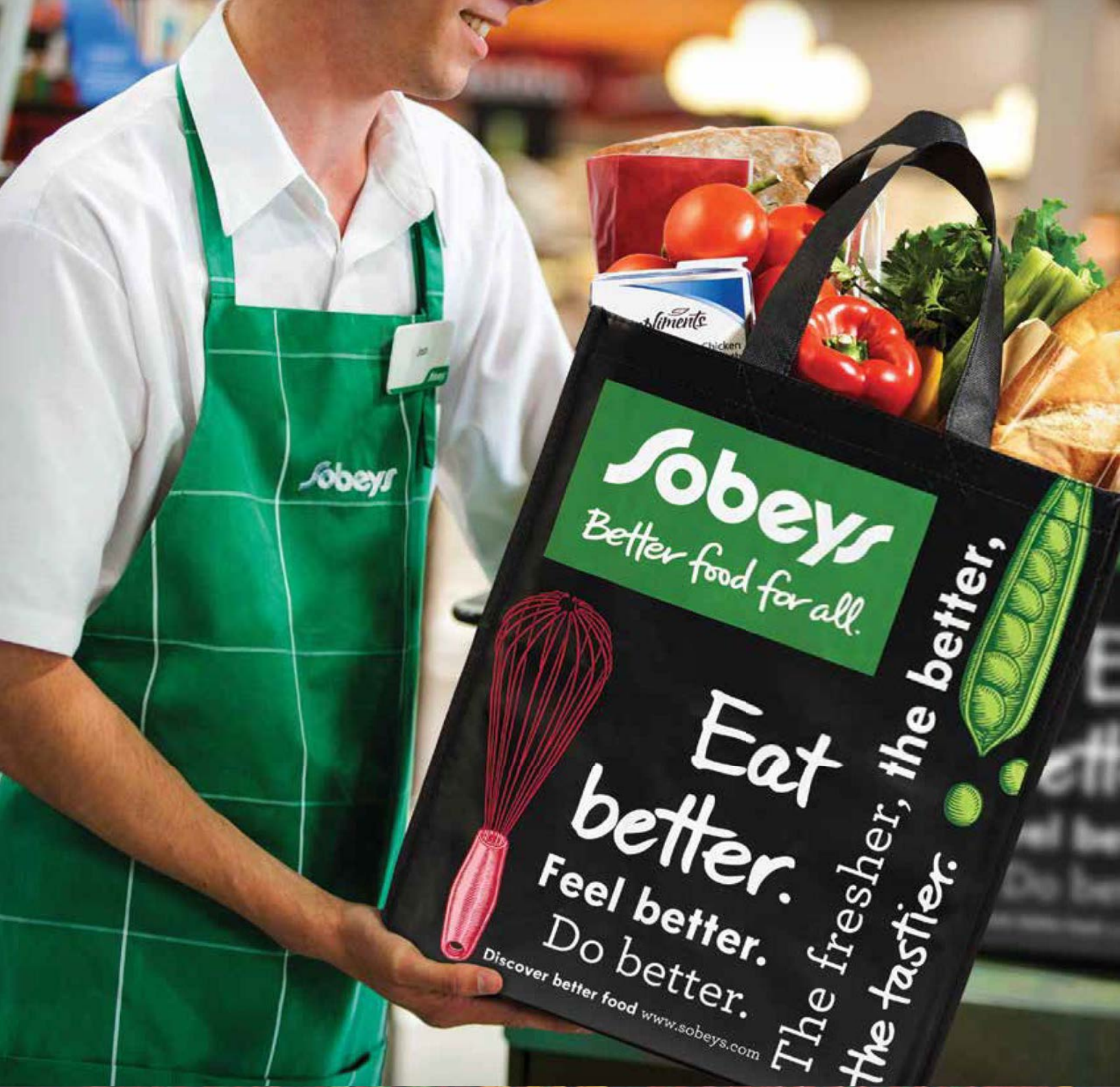
Today, Safeway's approach is much like that of our other full service banners with a fresh-driven, food-focused offering that depends on the support of knowledgeable and engaged employees. Our operations share many other similarities including: capable and experienced management, well-established training and development programs, leading customer insight capabilities, and the popular AIR MILES® rewards program.

The Safeway store network is a welcome complement to Sobeys' existing store network. With a high concentration of stores in densely populated neighbourhoods in Vancouver, Calgary, Edmonton and Winnipeg, Safeway adds an established network of high-traffic locations and important real estate assets.

The right ingredients for growth

- A leading grocer in Western Canada including the fast-growing Alberta market
- An exceptional network of 200 Canada Safeway stores in established, sought-after locations
- Annual run-rate cost synergies of \$200 million over the next three years
- A highly aligned growth strategy and cultural fit
- Skilled, engaged and motivated employees
- A compelling full service fresh food offering





Better Food For All

While much has changed in the world of food retailing since J.W. Sobey launched his refrigerated meat business in 1907, Sobeys' success still depends on knowing what matters most to customers and continuously evolving to keep pace with their changing needs.

This spirit of innovation found expression during fiscal 2014 through the launch of **Better Food for All** in our Sobeys banner and **Mieux Manger** in our IGA stores in Québec. We are striving to be known as this country's Better Food destination by helping Canadians Eat Better, Feel Better and Do Better every day.

We know that our timing is right. In fact, our research shows that 73 percent of Canadian consumers would like to eat better than they currently do. As part of our **Better Food For All** movement, we are determined to help them achieve that goal. During the past year, Sobeys has made exciting changes to our full service food offering to show Canadians that better food tastes great, is affordable, convenient and easily available, and leads to a healthier life.

Delivering **Better Food for All** to our customers depends on the success of four strategic pillars that guide our assortment and shape the delivery of our offer.



Better Food for All – represents Sobeys' commitment to delivering a compelling and highly differentiated shopping experience for our customers.

WOW fresh is the first pillar of Sobeys' **Better Food for All** offering. We are setting a new standard for exceptional freshness, value as well as an in-store experience that has significantly enhanced our best-in-food reputation. This experience is defined by the market-fresh atmosphere in our stores, the delicious foods made daily in our new specialty shops, and the exceptional service of knowledgeable and engaged employees who bring **Better Food for All** to life.

The second pillar of **Better Food for All** is **Speed scratch**, which provides time-pressed consumers with delicious eat-at-home alternatives to dining out. Over the past year, we have brought a growing range of restaurant-quality meals into our stores including value-added meat and seafood offerings. We are also showing our customers how to prepare meals, with simple time and temperature information. We are helping them choose to prepare meals with a wide selection of ready-to-cook, ready-to-heat and ready-to-eat products. For customers who want to cook their own meals but lack the inspiration, we have introduced Meals Made Easy, a collection of high-quality ingredients that combine into a convenient meal solution. We have also introduced Bundled Meals, which provide time-saving meal ideas with groups of products at fixed price points.

73%

Our research shows that 73 percent of Canadian consumers would like to eat better than they currently do.

welcome to our
kitchen



cheese



Every Pull up
CRACK

wellbeing

BETTER BECAUSE

Impossible to resist all-butter, super flaky european croissants and danish pastries, baked fresh in-store daily. So good that it built warm fuzzies and joy!

Available for purchase at participating stores.



Healthy wholesome is the third pillar of our **Better Food for All** offering. This program helps our customers make healthier and more varied choices. We have added hundreds of new Natural Source products, which are minimally processed without the use of additives or preservatives. We have brought these to market by emphasizing their benefits through dedicated merchandising programs and expert advice from specially trained Wellbeing Counsellors.

Giving our customers more and better opportunities to make **Sustainable** choices is the focus of the fourth **Better Food for All** pillar. Sobeys' new full service offering includes an expanded assortment of organic products that are grown and harvested without pesticides, responsibly sourced products that are procured with consideration for the welfare of animals and the environment in mind, and local products that celebrate the best local farmers have to offer at each seasonal harvest. Our commitment to sustainability can be seen in Sobeys' variety of Marine Stewardship Council Certified Sustainable fish products. Sobeys also became the first major food retailer in North America to offer beef, pork and poultry that meets Certified Humane® standards. These include meats from the Blue Goose, DuBreton and Aspen Ridge brands, as well as 'Compliments presents Jamie Oliver discovers Canada', through our exclusive partnership with Jamie Oliver.

Making better food more affordable is also critical to the success of the **Better Food for All** movement. We are ensuring that Sobeys is the low-cost destination for essential items that our customers buy day in and day out.



In 2013, Sobeys became the first North American retailer to offer Certified Humane® products in chicken, beef and pork. Customers will find Certified Humane® meats from the Blue Goose, Sunrise, Du Breton and Aspen Ridge brands, as well as 'Compliments presents Jamie Oliver Discovers Canada'.

Making better food more affordable is also critical to the success of the **Better Food for All** movement. We are ensuring that Sobeys is the affordable destination for essential items that our customers buy day in and day out. We are also making the total food basket more affordable for our customers by price checking products every month, offering low-price features, providing loyalty rewards on designated products and offering more than 4,000 *Compliments* private label products.

Because it takes a bit more room to deliver everything that **Better Food for All** has to offer, we've introduced our next-generation **Sobeys extra** stores and our expanded full service stores to support our expanded banner positioning. These new stores welcome customers into a world of food discovery and innovation with extra departments, products, services and savings that are designed to help them Eat Better, Feel Better and Do Better every day.

These 'extras' include: **Sobeys' Kitchen**, where customers can find fresh ready-to-eat or ready-to-heat prepared meals daily, including: freshly made sushi and noodle dishes, stone oven-baked pizza, hot roast beef dinners from the carvery, freshly roasted coffee, and fruity smoothies from the smoothie bar.

An expanded Bakery, which offers: artisan breads baked in store with pure ingredients, store-made Montréal and New York style bagels, fruit cakes topped with real cream, and all-butter pastries and gourmet cakes.

Natural Source and Wellbeing Departments, with more than 3,500 products that support health, energy and nutritional goals. This includes more organic and natural choices, and more choices for special diet requirements such as: gluten-free, dairy-free, sugar-free, and low-sodium products.

An expanded Produce Department, which offers: ready-to-eat, store-made cut fruit and salads, pre-cut vegetables, a wide variety of organic and local produce, and lower cost signature Sobey's fresh programs like potatoes displayed by usage and tomatoes by sweetness.

Premium Meat and Seafood Departments, which feature expert butchers who will custom-cut meat for any occasion. Customers will also find a vast selection of value-added meat and seafood selections that are ready to cook, Certified Humane® beef, pork and chicken, as well as MSC Certified fish products.



After 107 years in business, our success still depends on recognizing what customers want in a dynamic food-retailing environment, and delivering a relevant and differentiated shopping experience that earns their loyalty and trust.

Premium Cheese and Deli Departments, which offer a wide selection of specialty deli meats and cheeses including new samples for customers to taste every day. Each Cheese Department is staffed by a Cheese Ambassador who provides expert guidance in selecting from hundreds of available products, along with new entertaining ideas.

Our commitment to helping Canadians Eat Better, Feel Better and Do Better extends to our Full Service Safeway and Thrifty Foods stores, as well as the retail banners in our Fresh Service, Community, Discount and Convenience formats. Sobey's remains committed to delivering the best product, merchandising and service offering available while making better food more affordable for Canadians. After 107 years in business, our success still depends on recognizing what customers want in a dynamic food-retailing environment, and delivering a relevant and differentiated shopping experience that earns their loyalty and trust. Canadians are looking for our help to make better food choices for themselves and their families. With the **Better Food For All** movement, we are showing more people every day that they can count on us.

3,500+

Sobey's Natural Source and Wellbeing Departments feature more than 3,500 products that have been carefully selected to support the health, energy and nutritional goals of our customers.





A legacy of long-term value creation

2005

2006

2007

2008

2009

FISCAL 2005

SALES (\$ IN MILLIONS)

\$12,435.2

ADJUSTED NET EARNINGS
FROM CONTINUING OPERATIONS
(\$ IN MILLIONS)

\$182.9

BOOK VALUE (\$ PER SHARE)

\$25.87

2005

August 2004

Sobeys introduces its exclusive *Compliments* private label offering.

2006

June 2005

Wajax converts to an income trust. Empire sells 2.875 million units, for a \$25.6 million gain.

March 2006

Crombie REIT completes its initial public offering. Empire sells 44 properties to Crombie REIT for \$468.5 million and retains an initial 48.3% ownership interest.

2007

August 2006

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

2008

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.

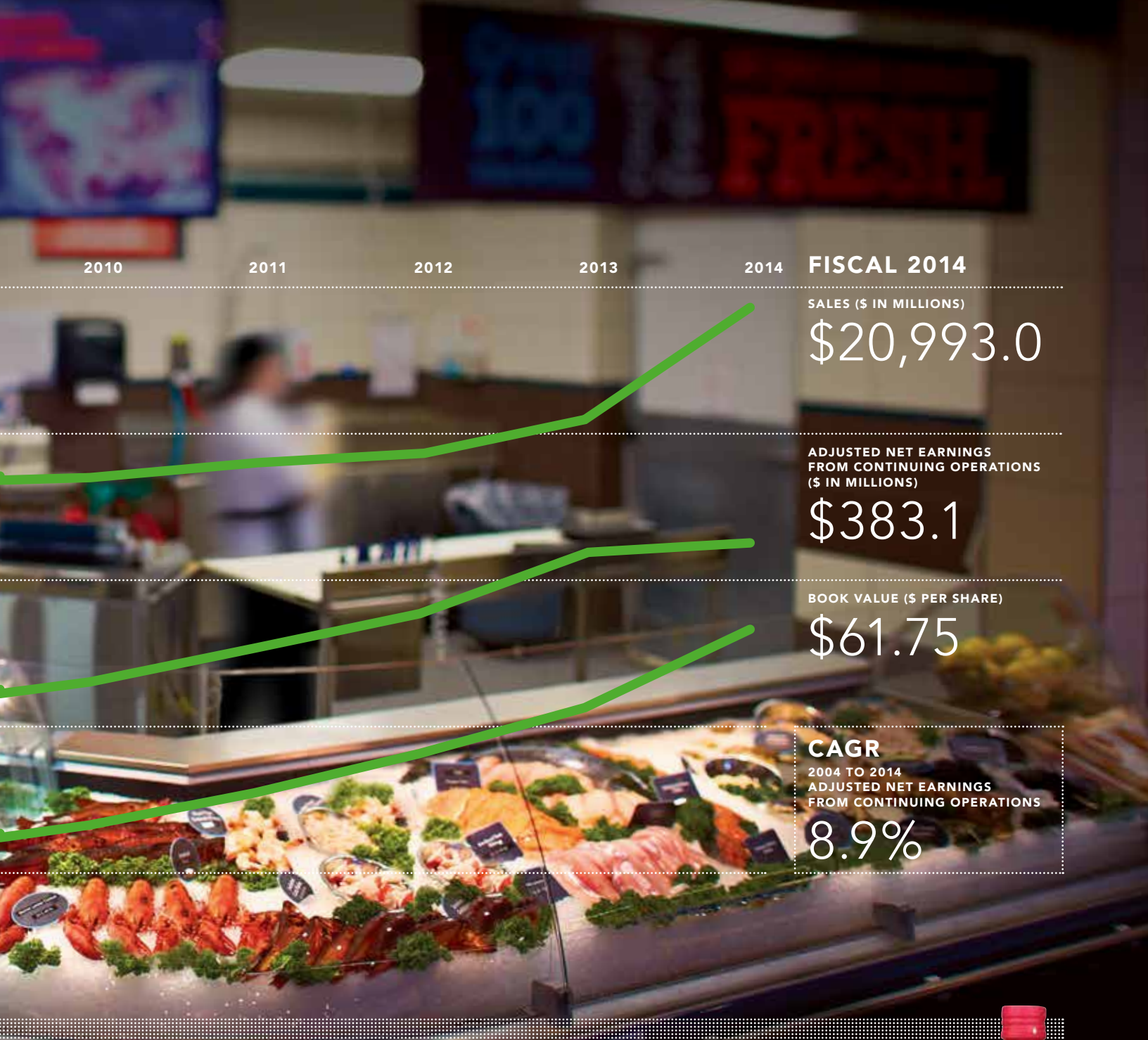
April 2008

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

2009

March 2009

Empire issues 2.713 million Non-Voting Class A shares at \$49.75 per share for total net proceeds to Empire of approximately \$129 million. Proceeds from this equity issue, coupled with strong cash generation from Sobeys, reduce Empire's ratio of debt to capital to 32.7% from 39.8%.



2010

2011

2012

2013

2014

FISCAL 2014

SALES (\$ IN MILLIONS)

\$20,993.0

ADJUSTED NET EARNINGS FROM CONTINUING OPERATIONS (\$ IN MILLIONS)

\$383.1

BOOK VALUE (\$ PER SHARE)

\$61.75

CAGR

2004 TO 2014
ADJUSTED NET EARNINGS FROM CONTINUING OPERATIONS

8.9%

2010

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%.

2011

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.

2012

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

March 2012
Sobeys purchases 236 retail gas locations in Québec and Atlantic Canada for \$214.9 million.

2013

November 2012
Sobeys begins shipping from its second fully-automated distribution centre in Terrebonne, Québec.

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

2014

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.



A vital part of our communities

At Empire, we know that a strong commitment to the communities where our employees live and work is fundamental to our long-term success. We strive to be good neighbours in all that we do and actively encourage and support our employees, franchisees and affiliates to help make their communities better places to live and work.



Empire and its employees and customers support a wide range of important causes across Canada at the corporate, regional and individual store levels. Most of these initiatives support families and children, especially in the areas of health, wellness and education. The major focus is placed on local communities where our employees, franchisees and affiliates give generously of their time and talent in support of important events and causes. Our dedication to community service is closely tied to the legacy of the Sobeys family and an organizational culture, which expresses itself through a collective commitment of giving back to enhance the lives of Canadians.

1. Teaching Young Chefs - The Thrifty Foods Young Chef program is a full or part-time, week-long summer camp that teaches kids aged 9-12 how to read recipes as well as learn basic cooking tips, nutrition guidelines, and food safety skills. Thrifty Foods supplies all training materials, cooking ingredients and equipment, and special take-away items. To help make the program affordable for all families, Thrifty Foods subsidizes the registrants' fees at each camp.

2. Make Muscles Move - Safeway partnered with Muscular Dystrophy Canada for the sixth consecutive year to raise funds and create awareness through the Make Muscles Move campaign. In 2013 approximately \$1 million was raised towards leading-edge neuromuscular research and mobility grants across Western Canada and Northern Ontario.

3. Ride to Conquer Cancer - As the official grocery sponsor, Sobeys Inc. served over 5,000 participants and volunteers of the Ontario Enbridge Ride to Conquer Cancer in support of the Princess Margaret Hospital Foundation.

4. Bust a Move for Breast Health - Sobeys has been a Gold Sponsor of Bust a Move for Breast Health since its inception in 2010, and has had a team participate each year as well. Sobeys employees have raised more than \$475,000 to support the new Breast Health Centre located at the IWK Health Centre in Halifax, Nova Scotia.

5. Supporting Local Foodbanks - Sobeys' passion for food extends beyond our stores and into the communities in which we operate. Every year, through each of our store banners, we help feed the hungry by raising hundreds of thousands of dollars and donating millions of pounds of food to organizations across Canada that help the hungry.

6. 2013 World Youth Chess Championship - On November 14th, 2013, Marc Poulin played a fundraising chess match with 14-year-old Adam Dorrance of Cambridge, Nova Scotia before a crowd gathered at Sobeys' New Minas store. Capping off a week of in-store fundraising, Sobeys employees and customers raised the required funds for Adam's participation at the World Youth Chess Championship.



2



3



4



5



6

Our environmental commitment

At Sobeys, our sustainability strategy is primarily focused on mitigating our impact on the environment, an approach that complements our financial, community and social initiatives. This strategy goes well beyond merely complying with laws that govern our Company to include many voluntary initiatives. It's our commitment to continuous improvement as we develop corporate and individual behaviours that do not compromise the ability of future generations to prosper on the planet that we all share.

Our sustainability efforts are not separate from our core strategy; they are part of a deliberate process that balances the wellbeing of our business, customers and communities with what we must do to address our environmental impact. Our goal is to integrate sustainability across all areas of our business, focusing particularly on the areas of reducing greenhouse gas emissions and waste reduction.

As we continue to advance sustainability at Sobeys, our approach will continue to evolve. Learning from and leveraging existing initiatives, we will share best practices and evaluate all options to accelerate the adoption of solutions that make sense for our business and the environment, while acting in the best interest of the customers and communities we serve.

Reducing the environmental footprint

Goal: Reduce Greenhouse Gas emissions by 15%*

Sobeys is encouraged to report that we achieved a 14.5% reduction compared to our 2008 baseline. Specific work contributing to the improvement included introducing new carbon dioxide-based refrigeration systems that both save energy and reduce greenhouse gas impacts.

Result:

14.5%
↓

Goal: Reduce waste to landfill by 30%*

Sobeys exceeded the waste diversion targets, improving our performance by 52% at corporate store level and by 36% at our retail support centres compared to our baseline.

Result:

52%
↓

*by December 31, 2013

Supply chain

Responsible Sourcing

Sobeys continues to work with private label product suppliers to ensure that their raw materials are sourced with consideration for good environmental stewardship and that their operations meet our expectation for social compliance standards. Sobeys continues to work with the global Consumer Goods Forum on deforestation issues related to the palm oil, soy, beef and pulp and paper industries. The responsible sourcing of both wild caught and farmed seafood remains a focus area for the Company.



Animal Welfare

As an associate member of the National Farm Animal Care Council (NFACC) in Canada, we contribute to improving the treatment of agricultural animals in Canada. Recently, this has included making a commitment to source fresh pork products from sows raised through alternative housing practices by the end of 2022. We have also endorsed the veal industry's voluntary action to move to less restrictive housing by 2018 for all calves.



The above summarizes Sobeys Inc.'s progress on key sustainability goals and indicators. For the complete 2013 Sustainability scorecard, please visit www.sobeysustainability.com.

The value of good governance



Empire has always invested in its business with the aim of maximizing long-term value creation. This philosophy was very much in evidence during fiscal 2014, a truly transformational year for the Company.

Among the responsibilities of Empire's Board, none is more important than understanding potential risks to the Company's future prosperity and ensuring they are reflected in the development and direction of our growth strategies. Such vigilance has never been more important than in today's food retailing market, which remains more competitive than we have seen in many years.

With this in mind, Empire has continued to make the investments that will ensure long-term value creation. Our acquisition of Canada Safeway was a truly transformational event that elevated us to the number one market position in the fastest growing region of the country, while fortifying our position as Canada's second largest food retailer. It has also given us the opportunity to generate substantial earnings growth through \$200 million in planned synergies over the next three years.

We also know that long-term success in our business depends on a differentiated food offering that resonates with our customers. That's why we are investing in Sobeys'

new *Better Food for All* full service format positioning. According to early indications, it has struck a chord with Canadian shoppers and the rollout of the next-generation Sobeys stores has been met with much enthusiasm.

Empire's ability to execute on these major investments has been made possible by earlier long-term investments in Sobeys' infrastructure. The development of a scalable, national business platform and modern distribution infrastructure established the critical foundation required for the successful integration of Safeway. It is also helping Sobeys to deliver its most ambitious full service offering to date at a cost structure that will ensure its success.

Empire has delivered an exceptional record of long-term growth over the years, supported by a Board and senior management that are focused on doing what's best for the business in the long term, rather than the next quarter's financial results.

The events of the past year also signaled the completion of a 15-year transformation in which Empire has evolved from a company with diverse business interests into a geographically diverse food retailer with related real estate holdings. It is no coincidence that this period marked Paul Sobeys' tenure as President and CEO. During this time, Sobeys took its first step toward becoming a national food retailer with the 1998 acquisition of The Oshawa Group. Other acquisitions followed, culminating in the recent purchase of Canada Safeway. Paul also presided over the divestment of non-core assets and the creation of Crombie REIT to help fund Sobeys' growth and

unlock the value of Empire's real estate assets. Many other talented individuals played a key role in ensuring Empire's success over these years, but Paul was very much the driving force behind Empire's transformation. His vision and leadership also created much value for Empire's shareholders as evidenced by a 11.6 percent compound annual total return to shareholders over the past 10 years. We are pleased that Paul will continue to serve on Empire's Board.

I would like to acknowledge two outstanding directors who will not be standing for re-election at this year's AGM: Mel Rhinelander, who has served as Chair of the Human Resource and Compensation Committee, and David Leslie, who has served as Chair of the Audit Committee. Both men have brought strength and leadership to the board since their appointment in 2007 and we sincerely appreciate their valued service to Empire.

Finally, I wish to pay tribute to former Director Marcel Côté, who passed away earlier this year. On behalf of the many friends and colleagues at Empire and Sobeys who had the privilege to know Marcel, we extend our condolences and best wishes to his family.

Sincerely,

(signed) "Robert P. Dexter"

Robert P. Dexter
Chair
Empire Company Limited

June 26, 2014

Directors and Officers

Empire Company Limited Board of Directors (As of June 26, 2014)



Robert P. Dexter, Chair
Halifax, Nova Scotia
Director since 1987



Bonnie Brooks
Toronto, Ontario
Director since 2012



Cynthia Devine
Toronto, Ontario
Director since 2013



David S. Ferguson
Atlanta, Georgia
Director since 2007



Edward C. Harsant
Woodbridge, Ontario
Director since 2003



David Leslie
Toronto, Ontario
Director since 2007



Kevin Lynch
Ottawa, Ontario
Director since 2013



Marc Poulin
Montréal, Québec
Director since 2012



Stephen J. Savidant
Calgary, Alberta
Director since 2004



David F. Sobeys
New Glasgow, Nova Scotia
Director since 1963



Donald R. Sobeys*
Pictou County, Nova Scotia
Director since 1963



Frank C. Sobeys
Pictou County, Nova Scotia
Director since 2007



John R. Sobeys
Pictou County, Nova Scotia
Director since 1979



Karl R. Sobeys
Halifax, Nova Scotia
Director since 2001



Paul D. Sobeys
Pictou County, Nova Scotia
Director since 1993

*Donald Sobeys was appointed to the Order of Canada on May 7, 2014 in recognition for his lifetime of achievements as an entrepreneur and philanthropist.



Robert G. C. Sobeys
Stellarton, Nova Scotia
Director since 1998



Martine Turcotte
Verdun, Québec
Director since 2012

To learn more, please visit the governance section at www.empireco.ca



Empire Company Limited Officers (As of June 26, 2014)



Robert P. Dexter
Chair



Marc Poulin
President and Chief Executive Officer



François Vimard
Chief Financial Officer



Clinton Key
Executive Vice President, Finance



Stewart H. Mahoney
Vice President, Treasury and Investor Relations



Karin A. McCaskill
Secretary



L. Jane McDow
Assistant Secretary

Sobeys Inc. Officers (As of June 26, 2014)



Robert P. Dexter
Chair



Marc Poulin
President and Chief Executive Officer



François Vimard
Chief Financial and Administrative Officer



Clinton Key
Executive Vice President, Finance



Jason Potter
President, Sobeys Multi-Format Operations



Claude Tessier
President, Sobeys IGA Operations



Chuck Mulvenna
President, Safeway Operations



Simon Gagné
Chief Human Resources 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") on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 52 weeks ended May 3, 2014 compared to the 52 weeks ended May 4, 2013. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's two business segments, as well as a discussion of cash flows, the impact of risks and the outlook for the business. 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.

This MD&A is the responsibility of management. The Board of Directors carries out its responsibilities for review of this disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee has reviewed and approved this disclosure and it has also been approved by the Board of Directors.

This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 3, 2014 compared to the 52 weeks ended May 4, 2013. The audited annual 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, its subsidiaries and Structured Entities ("SEs"), which the Company is required to consolidate. The information in this MD&A is current to June 26, 2014, unless otherwise noted.

FORWARD-LOOKING INFORMATION

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities, may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "intends", "may", "plans", "will", "would" and other similar expressions, or the negative of these terms, are generally indicative of forward-looking statements.

These forward-looking statements include the following items:

- Anticipated benefits from the Canada Safeway ULC ("Canada Safeway") acquisition such as growth prospects, benefits from economies of scale, future business strategy, and expectations regarding operations and strategic fit which may be impacted by the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns and the anticipated retention of Canada Safeway's operational employees;
- 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 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, 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;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- 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;
- The Company's expectation that ongoing litigation matters and claims arising from the ordinary course of business will have no material impact on the Company;
- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved;
- Sobeys Inc.'s ("Sobeys") expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Completion, timing of completion and final proceeds of the divestiture of the remaining stores that was included in assets held for sale as of May 3, 2014 and for which the sale is not yet completed, which may be impacted by completion of conditions to closing contained in sales agreements and the ability of the purchasers to fulfill their obligations under that agreement;
- Sobeys' expectations regarding the retail store network rationalization including the impact on future sales and net earnings which may be impacted by the timing of closures and realization of synergies;
- Sobeys' timing and value of expected synergies from the Canada Safeway acquisition, which may be impacted by a number of factors, including the effectiveness of integration efforts; and
- Sobeys' expectations regarding the value and timing of goodwill deductibility for income tax purposes, which may be impacted by the final purchase price allocation of the identifiable net assets and goodwill related to the Canada Safeway acquisition.

These statements are based on management's expectations and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives, and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that 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. Such forward-looking information is not fact but only reflects management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risk Management" section of this MD&A.

Empire cautions that the list of factors is not exhaustive and other factors could also adversely affect its results. 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 may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs, or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as at June 26, 2014 and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

There are measures 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, including gross profit, operating income and earnings before interest, taxes, depreciation and amortization ("EBITDA") are important indicators of Empire's ability to generate liquidity through operating cash flow to fund future working capital needs, service outstanding debt, and fund future capital expenditures and uses these metrics for these purposes. In addition, management undertakes to adjust certain of these and other measures, including operating income, EBITDA and net earnings from continuing operations in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure, by excluding items such as gains or losses on the disposal of assets, dilution gains or losses, restructuring and other items which are considered not indicative of underlying business operating performance. The intent of non-GAAP financial measures is to provide additional useful information to investors and analysts and these measures are also used by investors and analysts for the purpose of valuing the Company. Non-GAAP financial measures should not be considered in isolation or used as a substitute for measures of performance prepared in accordance with GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Empire's definition of the non-GAAP terms included in this MD&A are as follows:

- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross profit is calculated as sales less cost of sales.
- 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.
- EBITDA is calculated as net earnings from continuing operations, before finance costs (net of finance income), income taxes, and depreciation and amortization of intangibles. The exclusion of depreciation and amortization partially eliminates the non-cash impact from operating income.
- EBITDA margin is EBITDA divided by sales. Management believes that EBITDA margin is an important indicator of overall fixed and variable cost control (excluding depreciation and amortization of intangibles) and can help management, analysts and investors assess the competitive landscape, promotional environment of the industry, and overall management of fixed and variable operating costs. An increasing percentage indicates lower operating costs as a percentage of sales. The following table reconciles EBITDA to GAAP measures:

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾	May 3, 2014	May 4, 2013 ⁽¹⁾
Net (loss) earnings from continuing operations	\$ 2.0	\$ 103.5	\$ 159.0	\$ 381.4
Income taxes	(26.7)	33.2	36.3	136.4
Finance costs, net	47.6	13.6	133.2	55.4
Depreciation ⁽²⁾	99.4	76.2	359.4	301.4
Amortization of intangibles ⁽²⁾	25.1	12.1	67.4	43.5
EBITDA	\$ 147.4	\$ 238.6	\$ 755.3	\$ 918.1

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 23 of the Company's audited annual consolidated financial statements.

(2) Depreciation and amortization of intangibles from Empire Theatres have been recorded in discontinued operations and, as a result, these figures will not reflect those presented on the Company's condensed consolidated statements of cash flows.

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance. 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.
- Adjusted EBITDA margin is adjusted EBITDA divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings from continuing operations before finance costs (net of finance income) and income taxes.
- Operating income margin is operating income divided by sales.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance. Adjusted operating income is reconciled to operating income 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reconciles interest expense to GAAP measures.

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾	May 3, 2014	May 4, 2013 ⁽¹⁾
Finance costs, net	\$ 47.6	\$ 13.6	\$ 133.2	\$ 55.4
Plus: finance income	0.6	0.7	10.3	4.8
Less: fair value losses on forward contracts	(0.1)	(0.2)	(0.6)	(0.8)
Less: net pension finance costs	(3.4)	(2.0)	(10.4)	(8.1)
Interest expense	\$ 44.7	\$ 12.1	\$ 132.5	\$ 51.3
Interest expense on financial liabilities measured at amortized cost	\$ 44.7	\$ 12.0	\$ 132.5	\$ 49.6
Losses on cash flow hedges reclassified from other comprehensive income	–	0.1	–	1.7
Interest expense	\$ 44.7	\$ 12.1	\$ 132.5	\$ 51.3

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 23 of the Company's audited annual consolidated financial statements.

- Adjusted net earnings from continuing operations is net earnings from continuing operations, net of non-controlling interest, excluding items which are considered not indicative of underlying business operating performance. These adjustments include items which are non-recurring or one time in nature and items that result in a truer economic representation of the underlying business on a comparative basis. Adjusted net earnings from continuing operations is reconciled to net earnings from continuing operations, net of non-controlling interest, 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.
- 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.
- 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 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.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at May 3, 2014, May 4, 2013 and May 5, 2012, respectively.

(\$ in millions)	May 3, 2014	May 4, 2013 ⁽¹⁾	May 5, 2012
Bank indebtedness	\$ –	\$ 6.0	\$ 4.4
Long-term debt due within one year	218.0	47.6	237.3
Long-term debt	3,279.9	915.9	889.1
Funded debt	3,497.9	969.5	1,130.8
Less: cash and cash equivalents	(429.3)	(455.2)	(510.2)
Net funded debt	3,068.6	514.3	620.6
Total shareholders' equity, net of non-controlling interest	5,700.5	3,724.8	3,396.3
Net total capital	\$ 8,769.1	\$ 4,239.1	\$ 4,016.9

MANAGEMENT'S DISCUSSION AND ANALYSIS

(\$ in millions)	May 3, 2014	May 4, 2013	May 5, 2012
Funded debt	\$ 3,497.9	\$ 969.5	\$ 1,130.8
Total shareholders' equity, net of non-controlling interest	5,700.5	3,724.8	3,396.3
Total capital	\$ 9,198.4	\$ 4,694.3	\$ 4,527.1

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's audited annual consolidated financial statements.

- 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 3, 2014, May 4, 2013 and May 5, 2012.

(\$ in millions)	May 3, 2014	May 4, 2013 ⁽¹⁾	May 5, 2012
Shareholders' equity, net of minority interest	\$ 5,700.5	\$ 3,724.8	\$ 3,396.3
Shares outstanding (basic)	92.310	67.949	67.949
Book value per common share	\$ 61.75	\$ 54.82	\$ 49.98

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's audited annual consolidated financial statements.

- Current assets to current liabilities ratio is current assets divided by current liabilities.
- 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.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity.

EMPIRE'S 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 knows and understands and believes to have the potential for long-term sustainable growth and profitability, principally food retailing and related real estate.

The Company continues to focus 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 and income growth. 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 an additional source of strength. Together, our core businesses reduce 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, Empire's 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.

OVERVIEW OF THE BUSINESS

Empire's key businesses include food retailing and related real estate. The Company's financial results are segmented into two separate or reportable segments: (1) Food Retailing and (2) Investments and Other Operations.

Food Retailing

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which as of May 3, 2014, conducted business through more than 1,500 retail stores (corporate owned and franchised) as well as more than 350 retail fuel locations, operating in every province and in over 800 communities across Canada.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right-format, right-sized stores, supported by superior customer service. Sobeys operates distinct store formats to better tailor its offering to the various customer segments it serves and to satisfy its customers' principal shopping requirements. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build new stores. The primary focus of these format development efforts are Sobeys' eight major banners: Sobeys, Sobeys extra, IGA extra, Thrifty Foods, IGA, Foodland, FreshCo and Safeway.

In fiscal 2014, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

During the 52 weeks ended May 3, 2014, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 332 stores (52 weeks ended May 4, 2013 – 54 stores). The increase is primarily due to the Canada Safeway acquisition of 213 full service grocery stores and 10 liquor stores noted below.

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of \$5.8 billion, subject to a working capital adjustment. The agreement provided for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities. The Canada Safeway acquisition closed effective November 3, 2013.

Retail Store Network Rationalization

During the fourth quarter of fiscal 2014, Sobeys completed a detailed full review of its retail store network. This review aligns with management's ongoing focus of enhancing the productivity and performance of the network and logically follows the acquisition of Canada Safeway which was completed in the third quarter of fiscal 2014. Based on this detailed review, Sobeys has determined that consistently underperforming retail stores, representing approximately 50 stores (1.5 million of total gross square footage) and 3.8 percent of the total retail network gross square footage, will close. Approximately sixty percent of the affected stores are located in Western Canada. This rationalization will strengthen the quality of Sobeys' store network and is expected to improve net earnings as a result of cost savings; however, it will result in a reduction in future sales of approximately \$400 million or 1.9 percent of total sales.

The rationalization and restructuring costs associated with these store closures amount to \$169.8 million and are included in selling and administrative expenses for the fourth quarter ended May 3, 2014. This expense consists of \$137.1 million for severance, site closing and other costs, \$35.8 million associated with the write-down of property, equipment and intangible assets, and a \$3.1 million reversal of straight-line lease provisions.

Investments and Other Operations

Empire's investments and other operations segment, which as of May 3, 2014 included:

1. A 41.6 percent (39.3 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 250 commercial properties across Canada, comprising approximately 17.6 million square feet of gross leasable area. Crombie REIT's strategy is to own and operate a portfolio of primarily high quality grocery and drug store anchored shopping centres and freestanding stores 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 42.1 percent equity accounted interest in each of GDC Investments 4, L.P. and GDC Investments 6, L.P., a 45.8 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"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On June 27, 2013, the Company announced that it had reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres and 170 screens in Atlantic Canada and 2 theatres with 48 screens in Ontario. The Company had also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres and 179 screens in Ontario and Western Canada. On November 1, 2013, the Company announced that Empire Theatres completed the sale of 46 theatres with 397 screens in separate transactions with Cineplex Inc. and Landmark Cinemas. The aggregate gross purchase price paid to Empire Theatres in the two transactions was approximately \$259.2 million in cash. See the "Discontinued Operations" section of this MD&A.

During the first quarter of fiscal 2014, the Company entered into The Fraipont Partnership, with its equity accounted ownership interest being 49.0 percent. This partnership is being accounted for as part of real estate partnerships (Genstar).

During the third quarter of fiscal 2014, GDC Investments 5, L.P., which is being accounted for as part of real estate partnerships (Genstar), was dissolved.

With \$21 billion in annual sales and approximately \$12.2 billion in assets, Empire and its subsidiaries, including franchisees and affiliates, employ more than 125,000 people.

The 13 weeks ended February 1, 2014, was the first quarter to include results from the Canada Safeway acquisition.

DISCONTINUED OPERATIONS

On November 1, 2013, the Company announced that Empire Theatres completed the sale of 46 theatres with 397 screens in separate transactions with Cineplex Inc. and Landmark Cinemas as previously announced on June 27, 2013. As a result of the sale, financial results related to Empire Theatres, as previously reported in the investments and other operations segment, have been included in discontinued operations in the audited annual consolidated statements of earnings for the 52 weeks ended May 3, 2014 and May 4, 2013. Discontinued operations are discussed and referenced throughout this MD&A. Please refer to Note 23 of the audited annual consolidated financial statements for the 52 weeks ended May 3, 2014 for greater detail on the operating results from discontinued operations.

Fiscal 2014 Financial Highlights

- Sales of \$21.0 billion, up \$3.59 billion or 20.6 percent (up 2.2 percent excluding the impact of the Canada Safeway acquisition).
- Sobeys' same-store sales remained consistent compared to the prior year.
- Adjusted net earnings, net of non-controlling interest, of \$383.1 million (\$4.78 per diluted share), a \$26.3 million or 7.4 percent increase from \$356.8 million (\$5.24 per diluted share) in fiscal 2013.
- Net earnings from continuing operations, net of non-controlling interest, of \$151.0 million (\$1.88 per diluted share) compared to \$372.3 million (\$5.47 per diluted share) last year.
- Divested Empire Theatres for a pre-tax gain of \$125.2 million.
- Sobeys opened, acquired or relocated 94 corporate and franchised stores, acquired 223 stores in the Canada Safeway acquisition, expanded 4 stores, rebannered/redeveloped 11 stores, divested 19 stores and closed 45 stores.
- Free cash flow of \$869.1 million versus \$430.2 million last year.
- Annual dividend per Non-Voting Class A and Class B common share increased to \$1.04 from \$0.96 last year.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 52 weeks ended May 3, 2014 compared to the 52 weeks ended May 4, 2013 and May 5, 2012:

(\$ in millions, except per share amounts)	52 Weeks Ended					
	May 3, 2014		May 4, 2013 ⁽¹⁾		May 5, 2012	
		% of Sales		% of Sales		% of Sales
Sales	\$ 20,993.0	100.00%	\$ 17,400.8	100.00%	\$ 16,249.1	100.00%
EBITDA ⁽²⁾	755.3	3.60%	918.1	5.28%	876.6	5.39%
Adjusted EBITDA ⁽²⁾⁽³⁾	1,043.3	4.97%	898.3	5.16%	856.2	5.27%
Operating income ⁽²⁾	328.5	1.56%	573.2	3.29%	534.3	3.29%
Adjusted operating income ⁽²⁾⁽³⁾	630.2	3.00%	553.4	3.18%	513.9	3.16%
Net earnings from continuing operations ⁽⁴⁾	151.0	0.72%	372.3	2.14%	339.4	2.09%
Net earnings from discontinued operations	84.4	0.40%	7.2	0.04%	—	—
Net earnings ⁽⁴⁾	235.4	1.12%	379.5	2.18%	339.4	2.09%
Adjusted net earnings from continuing operations ⁽²⁾⁽³⁾⁽⁴⁾	383.1	1.82%	356.8	2.05%	322.7	1.99%
Free cash flow ⁽²⁾	869.1	4.14%	430.2	2.47%	407.9	2.51%
Basic earnings per share						
Net earnings from continuing operations ⁽⁴⁾	\$ 1.89		\$ 5.48		\$ 4.99	
Net earnings from discontinued operations	\$ 1.05		\$ 0.11		\$ —	
Net earnings ⁽⁴⁾	\$ 2.94		\$ 5.59		\$ 4.99	
Adjusted net earnings from continuing operations ⁽²⁾⁽³⁾⁽⁴⁾	\$ 4.79		\$ 5.25		\$ 4.75	
Basic weighted average number of shares outstanding (in millions)	80.0		67.9		67.9	
Diluted earnings per share						
Net earnings from continuing operations ⁽⁴⁾	\$ 1.88		\$ 5.47		\$ 4.99	
Net earnings from discontinued operations	\$ 1.05		\$ 0.11		\$ —	
Net earnings ⁽⁴⁾	\$ 2.93		\$ 5.58		\$ 4.99	
Adjusted net earnings from continuing operations ⁽²⁾⁽³⁾⁽⁴⁾	\$ 4.78		\$ 5.24		\$ 4.74	
Diluted weighted average number of shares outstanding (in millions)	80.2		68.1		68.0	
Dividend per share	\$ 1.04		\$ 0.96		\$ 0.90	

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 23 of the Company's audited annual consolidated financial statements.

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

(3) Excludes items which are considered not indicative of underlying business operating performance.

(4) Net of non-controlling interest.

Outlook

Management's primary objective will continue to be to maximize the long-term sustainable value of Empire through enhancing the worth of the Company's net assets.

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing and related real estate. In doing so, we remain committed to supporting Sobeys in its goal to be widely recognized as the best food retailer and workplace environment in Canada and capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses. Management is committed to the continued strengthening of our financial condition through the prudent management of working capital and free cash flow in each operating company.

Food Retailing

Sobeys will continue to invest in infrastructure and productivity improvements in a manner consistent with its expressed intention to build a healthy and sustainable retail business and infrastructure for the long term. This includes continuing to build a strong management team while improving the customers' in-store experience and our productivity.

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2015 to further improve store productivity. These key customer driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

Investments and Other Operations

Empire remains committed to its investment in Crombie REIT. We are confident that the strength of Sobeys' relationship with Crombie REIT, combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value.

Empire expects to continue to benefit from the distinguishing advantage inherent in Sobeys' real estate development operations, whereby it provides robust in-house expertise in the selection and development of commercial locations, which will be offered for sale to Crombie REIT.

Shareholder Return

The Company delivered a total shareholder return of 1.5 percent in fiscal 2014 as shown in the table below. The compound annual return on the Company's shares over the past five years has averaged 8.6 percent and over the past ten years has averaged 11.6 percent. This compares to the compound annual return of the S&P/TSX Composite Index over the past five and ten years of 12.4 percent and 8.8 percent, respectively.

In fiscal 2014, the Company increased its dividend by 8.3 percent to \$1.04 per share. This was the eighteenth consecutive year of dividend increases. On June 26, 2014, the Board approved a further dividend increase of 3.8 percent to \$0.27 per share quarterly, which amounts to \$1.08 per share on an annualized basis. Empire's dividends are declared quarterly at the discretion of the Board.

For the fiscal year ended:	May 3, 2014	May 4, 2013	May 5, 2012	May 7, 2011	May 1, 2010	5-Year CAGR ⁽¹⁾
Closing market price per share	\$ 68.63	\$ 68.58	\$ 57.62	\$ 54.14	\$ 52.98	7.0%
Dividend paid per share	\$ 1.04	\$ 0.96	\$ 0.90	\$ 0.80	\$ 0.74	8.2%
Dividend yield on prior year closing price	1.5%	1.7%	1.7%	1.5%	1.5%	
Increase in closing share price	0.1%	19.0%	6.4%	2.2%	8.1%	
Total annual shareholder return ⁽²⁾	1.5%	21.0%	8.1%	3.7%	9.9%	8.6%

(1) Compound annual growth rate ("CAGR").

(2) Total annual shareholder return assumes reinvestment of quarterly dividends, and therefore may not equal the sum of dividend and share price returns in the table.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 52 weeks ended May 3, 2014 compared to the 52 weeks ended May 4, 2013.

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 "Fiscal 2014 Financial Performance by Segment" of this MD&A.

Sales

Consolidated sales for fiscal 2014 were \$20.99 billion compared to \$17.40 billion in fiscal 2013, an increase of \$3.59 billion or 20.6 percent. During this period, sales from the food retailing segment increased \$3.60 billion or 20.7 percent.

The following table reconciles sales reported by Sobeys to Empire's food retailing segmented sales, and food retailing and investments and other operations' segmented sales to Empire's consolidated sales from continuing operations.

(\$ in millions)	52 Weeks Ended		(\$) Change	(%) Change
	May 3, 2014	May 4, 2013		
Food retailing segment				
Sobeys' reported sales	\$ 20,961.5	\$ 17,345.8	\$ 3,615.7	20.8%
Reclassification of lease revenue from owned property recorded by Sobeys	33.4	56.9		
	20,994.9	17,402.7	3,592.2	20.6%
Elimination of sales to discontinued operations	(7.1)	(11.7)		
Empire's food retailing segmented sales	20,987.8	17,391.0	3,596.8	20.7%
Investments and other operations segmented sales ⁽¹⁾	5.2	9.8	(4.6)	(46.9)%
Empire consolidated sales	\$ 20,993.0	\$ 17,400.8	\$ 3,592.2	20.6%

(1) Sales generated from Empire Theatres have been recorded in discontinued operations.

For the 52 weeks ended May 3, 2014, Sobeys reported sales of \$20.96 billion, an increase of \$3.62 billion or 20.8 percent from the \$17.34 billion reported in fiscal 2013. The growth in Sobeys' reported sales in the fiscal 2014 was primarily the result of \$3.20 billion of sales related to the Canada Safeway acquisition, combined with Sobeys' continued investment in its retail network, coupled with the continuation of sales and merchandising initiatives. Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) showed no change compared to the prior year. Same-store sales were impacted by low food inflation, increased competitive square footage in the market and ongoing competitive intensity. Empire's investments and other operations recorded sales of \$5.2 million in fiscal 2014 compared to \$9.8 million last year, a decrease of \$4.6 million.

The following table shows a reconciliation of sales recorded by Sobeys for the 52 weeks ended May 3, 2014 compared to the prior year. Excluding the impact of the Canada Safeway acquisition in fiscal 2014, Sobeys' reported sales increased \$413.0 million or 2.4 percent compared to the prior year.

(\$ in millions)	52 Weeks Ended		(\$) Change	(%) Change
	May 3, 2014	May 4, 2013		
Sobeys' reported sales	\$ 20,961.5	\$ 17,345.8	\$ 3,615.7	20.8%
Adjustment for the impact of the Canada Safeway acquisition	(3,202.7)	–	(3,202.7)	
Sobeys' adjusted sales	\$ 17,758.8	\$ 17,345.8	\$ 413.0	2.4%

Sales generated from Empire Theatres for the 52 weeks ended May 3, 2014 and May 4, 2013 have been recorded in discontinued operations. Please refer to Note 23 of the audited annual consolidated financial statements for the 52 weeks ended May 3, 2014 for greater detail on the operating results from discontinued operations.

Please refer to the section of this MD&A entitled "Fiscal 2014 Financial Performance by Segment" for an explanation of the change in sales by segment.

EBITDA

Consolidated EBITDA for the 52 weeks ended May 3, 2014 was \$755.3 million compared to \$918.1 million last year, a decrease of \$162.8 million or 17.7 percent. EBITDA margin decreased to 3.60 percent at the end of fiscal 2014 from 5.28 percent in the prior year. This decrease primarily relates to increased selling and administrative expenses which were primarily due to network rationalization costs of \$169.8 million, an increase in transaction costs of \$92.8 million associated with the Canada Safeway acquisition, a decrease in gains on the disposal of assets of \$18.4 million, a one-time inventory adjustment of \$17.1 million, a decrease in dilution gains of \$13.9 million, partially offset by \$172.7 million in EBITDA related to the Canada Safeway acquisition.

The following table adjusts reported EBITDA for items which are considered not indicative of underlying business operating performance.

(\$ in millions)	52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾
EBITDA ⁽²⁾⁽³⁾ (consolidated)	\$ 755.3	\$ 918.1
Adjustments:		
Network rationalization	169.8	–
Transaction costs associated with the Canada Safeway acquisition	97.8	5.0
Inventory adjustment	17.1	–
Organizational realignment and restructuring costs	12.1	9.1
Non-operating charge from equity accounted investment ⁽⁴⁾	2.5	8.3
Plant closure	1.0	–
Dilution gains	(4.3)	(18.2)
Gain on disposal of assets	(8.0)	(26.4)
Québec distribution network restructuring	–	2.4
	288.0	(19.8)
Adjusted EBITDA ⁽²⁾ (consolidated)	\$ 1,043.3	\$ 898.3

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 23 of the Company's audited annual consolidated financial statements.

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

(3) EBITDA generated from Empire Theatres has been recorded in discontinued operations.

(4) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 includes a non-recurring cost of \$2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 52 weeks ended May 4, 2013 includes a non-recurring charge of \$8.3 million relating to Crombie REIT's restated earnings.

After adjusting for items which are considered not indicative of underlying business operating performance, consolidated reported adjusted EBITDA for the 52 weeks ended May 3, 2014 was \$1,043.3 million compared to \$898.3 million last year, an increase of \$145.0 million or 16.1 percent. Adjusted EBITDA margin was 4.97 percent at the end of fiscal 2014 compared to 5.16 percent last year.

Please refer to the section of this MD&A entitled "Fiscal 2014 Financial Performance by Segment" for an explanation of the change in EBITDA for each segment.

Operating Income

Operating income in fiscal 2014 was \$328.5 million (1.56 percent of sales), a decrease of \$244.7 million from the \$573.2 million (3.29 percent of sales) recorded for the 52 weeks ended May 4, 2013. After adjusting for items which are considered not indicative of underlying business operating performance, for the 52 weeks ended May 3, 2014, Empire recorded adjusted operating income of \$630.2 million (3.00 percent of sales) compared to \$553.4 million (3.18 percent of sales) last year, an increase of \$76.8 million or 13.9 percent. Adjusted operating income excludes items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, along with intangible amortization related to the Canada Safeway acquisition of \$13.7 million.

The contributors to the change in consolidated operating income from the last year were as follows:

- Sobeys' operating income contribution to Empire in fiscal 2014 totalled \$291.6 million, a decrease of \$222.8 million from the \$514.4 million recorded last year.
- Investments and other operations contributed operating income of \$36.9 million in fiscal 2014 compared to \$58.8 million in fiscal 2013, a decrease of \$21.9 million.
 - Equity accounted earnings generated by Crombie REIT during fiscal 2014 were \$19.2 million compared to \$13.7 million in the prior year, an increase of \$5.5 million.
 - Real estate partnerships (Genstar) contributed operating income of \$30.4 million, an increase of \$0.8 million from the \$29.6 million recorded last year.
 - Other operations (net of corporate expenses) contributed an operating (loss) income of \$(12.7) million compared to \$15.5 million last year, a decrease of \$28.2 million.

Please refer to the section of this MD&A entitled "Fiscal 2014 Financial Performance by Segment" for an explanation of the change in operating income for each segment.

Finance Costs

Finance costs, net of finance income, for the 52 weeks ended May 3, 2014 were \$133.2 million, an increase of \$77.8 million from the \$55.4 million recorded last year. The increase primarily relates to higher interest expense of \$81.2 million due to increased debt levels as a result of the financing for the Canada Safeway acquisition, partially offset by higher total finance income of \$5.5 million. This increase in total finance income was primarily a result of higher interest income earned from the investment of subscription receipts and Sobeys' unsecured notes proceeds.

Please refer to the "Liabilities" sub-section under the "Consolidated Financial Condition" section of this MD&A for further details on consolidated funded debt.

Income Taxes

The Company's effective income tax rate on continuing operations for fiscal 2014 was 18.6 percent, compared to 26.3 percent in fiscal 2013. The decrease is primarily attributed to a re-measurement of the Company's deferred income tax provision and the receipt of non-taxable proceeds on the disposition of certain divested sites, offset with the partial non-deductibility of certain transaction costs for the Canada Safeway acquisition. During the quarter, the Company completed a re-measurement of its deferred income tax provision and have adjusted certain deferred tax attributes and the associated substantively enacted rates that have been applied. This re-measurement resulted in a tax recovery of \$20.7 million in the current fiscal year, a recovery in comprehensive income of \$0.8 million, an increase to deferred tax assets by \$31.3 million, a reduction to tax payable by \$4.2 million, and a reduction to equity investments by \$5.6 million.

Net Earnings from Continuing Operations

Consolidated net earnings from continuing operations, net of non-controlling interest, in fiscal 2014 equalled \$151.0 million (\$1.88 per diluted share) compared to \$372.3 million (\$5.47 per diluted share) in fiscal 2013. The decrease of \$221.3 million is largely a result of \$123.8 million, net of tax, relating to network rationalization costs along with transaction and finance costs, intangible amortization and a one-time inventory adjustment totalling \$105.5 million, net of tax, associated with the Canada Safeway acquisition, as detailed in the table below. Net earnings related to Canada Safeway operations were \$78.9 million in fiscal 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below adjusts reported net earnings from continuing operations, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance.

(\$ in millions, except per share amounts, net of tax)	52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾
Net earnings from continuing operations by segment ⁽²⁾ :		
Food retailing	\$ 121.8	\$ 334.2
Investments and other operations	29.2	38.1
Net earnings from continuing operations ⁽²⁾	\$ 151.0	\$ 372.3
EPS from continuing operations (fully diluted)	\$ 1.88	\$ 5.47
Adjustments ⁽³⁾ :		
Network rationalization	123.8	–
Transaction costs associated with the Canada Safeway acquisition	76.0	4.0
Inventory adjustment	12.7	–
Intangible amortization associated with the Canada Safeway acquisition	10.2	–
Organizational realignment and restructuring costs	8.5	6.7
Finance costs associated with the Canada Safeway acquisition	6.6	–
Non-operating charge from equity accounted investment ⁽⁴⁾	1.8	5.9
Plant closure	0.8	–
Québec distribution network restructuring	–	1.8
Dilution gains	(3.0)	(13.0)
Gain on disposal of assets	(5.3)	(20.9)
	232.1	(15.5)
Adjusted net earnings from continuing operations ⁽²⁾⁽⁵⁾	\$ 383.1	\$ 356.8
Adjusted net earnings from continuing operations by segment ⁽²⁾ :		
Food retailing	\$ 349.2	\$ 325.3
Investments and other operations	33.9	31.5
Adjusted net earnings from continuing operations ⁽²⁾⁽⁵⁾	\$ 383.1	\$ 356.8
Adjusted EPS from continuing operations (fully diluted)	\$ 4.78	\$ 5.24
Diluted weighted average number of shares outstanding (in millions)	80.2	68.1

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.

(2) Net of non-controlling interest.

(3) All adjustments are net of income taxes.

(4) 52 weeks ended May 3, 2014 includes a non-recurring cost of \$1.8 million, net of tax, related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; 52 weeks ended May 4, 2013 includes a non-recurring charge of \$5.9 million, net of tax, relating to Crombie REIT's restated earnings.

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

Adjusted Net Earnings from Continuing Operations

For the 52 weeks ended May 3, 2014, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest, of \$383.1 million (\$4.78 per diluted share) compared to \$356.8 million (\$5.24 per diluted share) in the same period last year. For the year ended May 3, 2014, Empire had a weighted average number of shares outstanding (fully diluted) of 80.2 million compared to 68.1 million in fiscal 2013.

Net Earnings

Consolidated net earnings, net of non-controlling interest, in the 52 weeks ended May 3, 2014 equalled \$235.4 million (\$2.93 per diluted share) compared to \$379.5 million (\$5.58 per diluted share) in fiscal 2013. The decrease of \$144.1 million is due to a \$221.3 million decrease in net earnings from continuing operations, net of non-controlling interest, as previously discussed, offset by an increase in net earnings from discontinued operations of \$77.2 million.

Net earnings from discontinued operations in fiscal 2014 equalled \$84.4 million (\$1.05 per diluted share) compared to \$7.2 million (\$0.11 per diluted share) in the prior year, an increase of \$77.2 million, primarily as a result of the gain from the re-measurement and disposal of assets and from restructuring costs, net of tax, from the sale of Empire Theatres of \$79.2 million.

The following table reconciles Empire's segmented net earnings from continuing operations, net of non-controlling interest, to net earnings, net of non-controlling interest, for the 52 weeks ended May 3, 2014 compared to the 52 weeks ended May 4, 2013.

(\$ in millions, except per share amounts, net of tax)	52 Weeks Ended		(\$) Change
	May 3, 2014	May 4, 2013 ⁽¹⁾	
Net earnings from continuing operations by segment ⁽²⁾ :			
Food retailing	\$ 121.8	\$ 334.2	\$ (212.4)
Investments and other operations	29.2	38.1	(8.9)
Net earnings from continuing operations ⁽²⁾	\$ 151.0	\$ 372.3	\$ (221.3)
EPS from continuing operations (fully diluted)	\$ 1.88	\$ 5.47	\$ (3.59)
Net earnings from discontinued operations	84.4	7.2	77.2
Net earnings by segment ⁽²⁾ :			
Food retailing	\$ 121.8	\$ 334.2	\$ (212.4)
Investments and other operations	113.6	45.3	68.3
Net earnings ⁽²⁾	\$ 235.4	\$ 379.5	\$ (144.1)
EPS (fully diluted)	\$ 2.93	\$ 5.58	\$ (2.65)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.

(2) Net of non-controlling interest.

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Fiscal 2014 Financial Performance by Segment".

FISCAL 2014 FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

Highlights

- Sobeys achieved fiscal 2014 sales growth of \$3.62 billion or 20.8 percent to reach \$20.96 billion. After adjusting for sales related to the Canada Safeway acquisition, sales growth was \$413.0 million or 2.4 percent.
- Free cash flow of \$604.6 million versus \$310.5 million in fiscal 2013.
- Total property, equipment and investment property purchases equalled \$562.1 million in fiscal 2014 versus \$508.1 million last year.
- Opened, acquired or relocated 94 corporate and franchised stores, acquired 223 stores in the Canada Safeway acquisition, expanded 4 stores, rebannered/redeveloped 11 stores, divested 19 stores and closed 45 stores.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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)	52 Weeks Ended		
	May 3, 2014	May 4, 2013	May 5, 2012
Sales growth	20.8%	8.3%	1.8%
Same-store sales growth ⁽¹⁾	0.0%	1.3%	1.4%
Return on equity ⁽¹⁾	3.1%	12.6%	13.3%
Funded debt to total capital ⁽¹⁾	41.6%	20.9%	27.2%
Funded debt to EBITDA ⁽¹⁾	4.7x	0.9x	1.2x
Property, equipment and investment property purchases ⁽²⁾	\$ 562	\$ 508	\$ 563

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

(2) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

Sobeys closed the Canada Safeway acquisition effective November 3, 2013. As a condition of the regulatory clearance from the Competition Bureau for Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway, Sobeys was required to divest 23 retail stores. On February 13, 2014, Sobeys announced that it entered into binding purchase agreements with Overwaitea Food Group LP and Federated Co-operatives Limited to purchase 22 of the 23 retail stores that were required to be divested as a result of the Canada Safeway acquisition. In addition to the required divestitures, Sobeys agreed to sell an additional seven stores in British Columbia comprised of both Safeway and Sobeys locations. Sobeys also signed a binding purchase agreement with another retailer for the sale of one retail store which was also required to be divested as part of the Canada Safeway acquisition. The purchase agreements all received approval from the Competition Bureau.

During the fourth quarter of fiscal 2014, Sobeys divested 19 of these 30 retail stores for cash proceeds of \$337.7 million. The assets and liabilities of \$112.2 million for the remaining 11 retail stores have been included in assets held for sale as of May 3, 2014. Ten of these remaining stores were divested subsequent to year-end subject to adjustments and the one remaining store is expected to be divested during the Company's first quarter of fiscal 2015. All proceeds will be used to repay bank borrowings.

During the 52 weeks ended May 3, 2014, Sobeys incurred pre-tax acquisition costs of \$97.8 million relating to external legal, consulting, due diligence, financial advisory and other closing costs. These costs have been included in selling and administrative expenses in the consolidated statements of earnings.

Business Process and Information System Transformation and Rationalization Costs

During fiscal 2013, Sobeys has substantially completed the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010 and was completed in the third quarter of fiscal 2013. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 52 weeks ended May 4, 2013, Sobeys incurred \$8.6 million of pre-tax costs related to these initiatives.

Following the close of the Canada Safeway acquisition, Sobeys began the process of integrating the acquired business with Sobeys' current operations. For the 13 and 52 weeks ended May 3, 2014, Sobeys recorded pre-tax integration costs of \$8.0 million and \$10.6 million, respectively, which have been recognized in selling and administrative expenses in the consolidated statement of earnings.

During the third quarter of fiscal 2013, Sobeys commenced operations of a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. In fiscal 2013, Sobeys recorded pre-tax severance costs associated with the distribution network in Québec of \$2.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In fiscal 2014, Sobeys performed organizational realignments and recorded pre-tax costs of \$3.0 million related to this initiative. A similar organizational realignment and corresponding leadership appointments were completed in fiscal 2013 which resulted in pre-tax costs of \$9.1 million recorded for the 52 weeks ended May 4, 2013.

The table below summarizes Sobeys' contribution to Empire's consolidated sales, EBITDA, adjusted EBITDA, operating income, adjusted operating income, net earnings, net of non-controlling interest, and adjusted net earnings, net of non-controlling interest.

(\$ in millions)	52 Weeks Ended ⁽¹⁾		(\$) Change	(%) Change
	May 3, 2014	May 4, 2013 ⁽²⁾		
Sales	\$ 20,987.8	\$ 17,391.0	\$ 3,596.8	20.7%
EBITDA ⁽³⁾	717.9	858.6	(140.7)	(16.4%)
Adjusted EBITDA ⁽³⁾⁽⁴⁾	999.2	848.0	151.2	17.8%
Operating income ⁽³⁾	291.6	514.4	(222.8)	(43.3%)
Adjusted operating income ⁽³⁾⁽⁴⁾	586.6	503.8	82.8	16.4%
Net earnings ⁽⁵⁾	121.8	334.2	(212.4)	(63.6%)
Adjusted net earnings ⁽³⁾⁽⁴⁾⁽⁵⁾	349.2	325.3	23.9	7.3%

(1) Net of consolidation adjustments which include a purchase price allocation from the privatization of Sobeys.

(2) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.

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

(4) Excludes items which are considered not indicative of underlying business operating performance.

(5) Net of non-controlling interest.

Sales

Empire's food retailing segment achieved sales of \$20.99 billion for the 52 weeks ended May 3, 2014, an increase of \$3.60 billion or 20.7 percent over fiscal 2013. The growth in Sobeys' sales in fiscal 2014 was primarily the result of \$3.20 billion of sales related to the Canada Safeway acquisition, combined with Sobeys' continued investment in its retail network, coupled with the continuation of sales and merchandising initiatives. During the fiscal year, Sobeys' same-store sales showed no change compared to the prior year. Same-store sales were impacted by low food inflation, increased competitive square footage in the market and ongoing competitive intensity.

The following table shows a reconciliation of sales recorded by Sobeys for the 52 weeks ended May 3, 2014 compared to the same period in the prior year. Excluding the impact of the Canada Safeway acquisition, Sobeys' reported sales increased \$413.0 million or 2.4 percent in fiscal 2014 compared to the same period last year.

(\$ in millions)	52 Weeks Ended		(\$) Change	(%) Change
	May 3, 2014	May 4, 2013		
Sobeys' reported sales	\$ 20,961.5	\$ 17,345.8	\$ 3,615.7	20.8%
Adjustment for the impact of the Canada Safeway acquisition	(3,202.7)	–	(3,202.7)	
Sobeys' adjusted sales	\$ 17,758.8	\$ 17,345.8	\$ 413.0	2.4%

Gross Profit

Sobeys recorded gross profit for the 52 weeks ended May 3, 2014 of \$5,016.1 million, an increase of \$1,003.0 million or 25.0 percent compared to \$4,013.1 million in fiscal 2013. For the year ended May 3, 2014, gross margin increased 79 basis points to 23.93 percent compared to 23.14 percent in fiscal 2013. The increase in gross profit and gross margin is largely a result of a \$985.7 million gross profit contribution related to the Canada Safeway acquisition, net of a one-time inventory adjustment of \$17.1 million. The one-time inventory adjustment is a result of Sobeys' estimated preliminary fair value using historical financial information from Canada Safeway, after considering a reduction for selling costs and profit margins on selling efforts. The amount was expensed in the third quarter as a result of the sale of the applicable inventory.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Excluding the impact related to Canada Safeway, gross margin would have been 22.69 percent, a decrease of 45 basis points compared to the prior year. Overall gross profit and gross margin were impacted during the year by the following factors: (i) increased inventory shrinkage ("shrink") primarily associated with Sobeys' fresh retail inventory turns as well as shrink associated with the new and innovative commercial programs as part of Sobeys' strategy to help Canadians *Eat Better, Feel Better, Do Better*; (ii) a highly promotional environment; (iii) a weaker CAD relative to the U.S. dollar ("USD") which affected the CAD cost of U.S. purchases; and (iv) ongoing drug regulatory reform which impacted the number of generic products and generic prescription reimbursement rates.

EBITDA

Sobeys contributed EBITDA to Empire for fiscal 2014 of \$717.9 million (3.42 percent of sales) compared to \$858.6 million (4.94 percent of sales) in fiscal 2013, a decrease of \$140.7 million or 16.4 percent. EBITDA was impacted by the factors affecting gross profit, as mentioned, and by increased selling and administrative expenses which were primarily due to network rationalization costs of \$169.8 million, an increase in transaction costs of \$92.8 million associated with the Canada Safeway acquisition combined with a decrease in gains on the disposal of assets of \$19.6 million, partially offset by \$172.7 million in EBITDA related to the Canada Safeway acquisition. Since the acquisition, to the end of fiscal 2014, a 26-week period, Sobeys recorded \$29.3 million of cost reductions as a result of synergies realized related to the acquisition.

The following table adjusts reported EBITDA from the food retailing segment for items which are considered not indicative of underlying business operating performance.

(\$ in millions)	52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾
EBITDA ⁽²⁾ (contributed by Sobeys)	\$ 717.9	\$ 858.6
Adjustments:		
Network rationalization	169.8	–
Transaction costs associated with the Canada Safeway acquisition	97.8	5.0
Inventory adjustment	17.1	–
Organizational realignment costs	3.0	9.1
Plant closure	1.0	–
Dilution gains	(0.6)	(0.7)
Gain on disposal of assets	(6.8)	(26.4)
Québec distribution network restructuring	–	2.4
	281.3	(10.6)
Adjusted EBITDA ⁽²⁾	\$ 999.2	\$ 848.0

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.

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

After adjusting for items which are considered not indicative of underlying business operating performance, Sobeys' adjusted EBITDA contribution to Empire for fiscal 2014 was \$999.2 million (4.76 percent of sales) compared to \$848.0 million (4.88 percent of sales) last year, an increase of \$151.2 million or 17.8 percent.

Operating Income

Sobeys' reported operating income contribution to Empire for the 52 weeks ended May 3, 2014 was \$291.6 million (1.39 percent of sales) compared to \$514.4 million (2.96 percent of sales) in the same period last year, a decrease of \$222.8 million. This decrease was primarily related to the factors impacting EBITDA, combined with depreciation and amortization expenses of \$48.8 million and \$13.7 million, respectively, related to the Canada Safeway acquisition. These factors were partially offset by \$110.2 million of operating income directly attributable to the inclusion of Canada Safeway.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table adjusts reported operating income from the food retailing segment for items which are considered not indicative of underlying business operating performance.

(\$ in millions)	52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾
Operating income ⁽²⁾ (contributed by Sobeys)	\$ 291.6	\$ 514.4
Adjustments:		
Network rationalization	169.8	–
Transaction costs associated with the Canada Safeway acquisition	97.8	5.0
Inventory adjustment	17.1	–
Intangible amortization associated with the Canada Safeway acquisition	13.7	–
Organizational realignment costs	3.0	9.1
Plant closure	1.0	–
Dilution gains	(0.6)	(0.7)
Gain on disposal of assets	(6.8)	(26.4)
Québec distribution network restructuring	–	2.4
	295.0	(10.6)
Adjusted operating income ⁽²⁾	\$ 586.6	\$ 503.8

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.

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

After adjusting for items which are considered not indicative of underlying business operating performance, Sobeys contributed adjusted operating income to Empire in fiscal 2014 of \$586.6 million (2.79 percent of sales) compared to \$503.8 million (2.90 percent of sales) in fiscal 2013, an increase of \$82.8 million or 16.4 percent.

Net Earnings

Sobeys contributed net earnings, net of non-controlling interest, of \$121.8 million to Empire in the 52 weeks ended May 3, 2014, a decrease of \$212.4 million from the \$334.2 million recorded in the same period of the prior year. This decrease is primarily the result of \$123.8 million, net of tax, relating to network rationalization costs, combined with \$105.5 million, net of tax, associated with transaction and finance costs, intangible amortization and a one-time inventory adjustment related to the Canada Safeway acquisition. Net earnings related to Canada Safeway operations for the 52 weeks ended May 3, 2014 were \$78.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below details the adjustments made to calculate Sobeys' contribution to Empire's consolidated adjusted net earnings, net of non-controlling interest.

(\$ in millions)	52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾
Net earnings ⁽²⁾ (contributed by Sobeys)	\$ 121.8	\$ 334.2
Adjustments ⁽³⁾ :		
Network rationalization	123.8	–
Transaction costs associated with the Canada Safeway acquisition	76.0	4.0
Inventory adjustment	12.7	–
Intangible amortization associated with the Canada Safeway acquisition	10.2	–
Organizational realignment costs	2.2	6.7
Finance costs associated with the Canada Safeway acquisition	6.6	–
Plant closure	0.8	–
Dilution gains	(0.4)	(0.5)
Gain on disposal of assets	(4.5)	(20.9)
Québec distribution network restructuring	–	1.8
	227.4	(8.9)
Adjusted net earnings ⁽²⁾⁽⁴⁾	\$ 349.2	\$ 325.3

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.

(2) Net of non-controlling interest.

(3) All adjustments are net of income taxes.

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

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of non-controlling interest, of \$349.2 million to Empire for fiscal 2014 compared to \$325.3 million in fiscal 2013, an increase of \$23.9 million or 7.3 percent.

Investments and Other Operations

Highlights

- Divested Empire Theatres for a gain from the re-measurement and disposal of assets and from restructuring costs, net of tax, of \$79.2 million.
- Crombie REIT's market capitalization surpassed \$1.6 billion with Empire's investment carrying a fair value of \$682.9 million.
- Equity earnings from real estate partnerships (Genstar) of \$30.4 million compared to \$29.6 million last year.
- Equity earnings from Crombie REIT of \$19.2 million versus \$13.7 million last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below presents sales, EBITDA, adjusted EBITDA, operating income, net earnings from continuing operations, net earnings from discontinued operations, net earnings and adjusted net earnings from continuing operations, for the investments and other operations segment.

(\$ in millions)	52 Weeks Ended		(\$) Change
	May 3, 2014	May 4, 2013	
Sales ⁽¹⁾	\$ 5.2	\$ 9.8	\$ (4.6)
EBITDA ⁽¹⁾⁽²⁾	37.4	59.5	(22.1)
Adjusted EBITDA ⁽²⁾⁽³⁾	44.1	50.3	(6.2)
Operating income (loss) ⁽²⁾			
Crombie REIT ⁽⁴⁾⁽⁵⁾	19.2	13.7	5.5
Real estate partnerships ⁽⁶⁾	30.4	29.6	0.8
Other operations, net of corporate expenses ⁽¹⁾⁽⁷⁾	(12.7)	15.5	(28.2)
	36.9	58.8	(21.9)
Net earnings from continuing operations	29.2	38.1	(8.9)
Net earnings from discontinued operations	84.4	7.2	77.2
Net earnings	113.6	45.3	68.3
Adjusted net earnings from continuing operations ⁽²⁾⁽³⁾	33.9	31.5	2.4

(1) Results generated from Empire Theatres have been recorded in discontinued operations.

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

(3) Excludes items which are considered not indicative of underlying business operating performance.

(4) 41.6 percent equity accounted interest in Crombie REIT (May 4, 2013 – 42.8 percent interest).

(5) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 includes a non-recurring cost of \$2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 52 weeks ended May 4, 2013 includes a non-recurring charge of \$8.3 million relating to Crombie REIT's restated earnings.

(6) Interests in Genstar.

(7) 52 weeks ended May 3, 2014 included organizational realignment and restructuring costs of \$9.1 million, dilution gains of \$3.7 million and a gain on the disposal of assets of \$1.2 million (52 weeks ended May 4, 2013 – organizational realignment and restructuring costs of \$nil, dilution gains of \$17.5 million and a gain on the disposal of assets of \$nil).

At May 3, 2014, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

(\$ in millions)	May 3, 2014			May 4, 2013		
	Fair Value	Carrying Value	Unrealized Gain	Fair Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 682.9	\$ 333.5	\$ 349.4	\$ 622.7	\$ 195.2	\$ 427.5
Investment in Genstar ⁽¹⁾	211.0	211.0	–	203.2	203.2	–
Canadian Digital Cinema Partnership ⁽¹⁾	9.7	9.7	–	9.2	9.2	–
Other investments ⁽¹⁾⁽²⁾	24.8	24.8	–	39.5	39.5	–
	\$ 928.4	\$ 579.0	\$ 349.4	\$ 874.6	\$ 447.1	\$ 427.5

(1) Assumes fair value equals carrying value.

(2) Includes an investment in Crombie REIT Series D convertible unsecured subordinated debentures (the "Debentures") with a market value of \$24.6 million (May 4, 2013 – \$24.8 million). During the first quarter of fiscal 2013, the Company purchased \$24.0 million of Debentures, which as at May 3, 2014, had a market value of \$24.6 million. On September 25, 2012, the Company converted Crombie REIT Series B convertible unsecured subordinated debentures with a face value of \$10.0 million into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of \$13.8 million, resulting in a pre-tax gain of \$3.8 million.

Sales

Investments and other operations' sales equalled \$5.2 million in the 52 weeks ended May 3, 2014 versus \$9.8 million in the 52 weeks ended May 4, 2013, a decrease of \$4.6 million. Sales generated from Empire Theatres have been recorded in discontinued operations. Please refer to Note 23 of the audited annual consolidated financial statements for the 52 weeks ended May 3, 2014 for greater detail on the operating results from discontinued operations.

EBITDA

Investments and other operations contributed EBITDA to Empire for fiscal 2014 of \$37.4 million compared to \$59.5 million in the same period last year, a decrease of \$22.1 million. Fiscal 2014 included organizational realignment and restructuring costs of \$9.1 million (fiscal 2013 – \$nil), a non-operating charge from an equity accounted investment of \$2.5 million (fiscal 2013 – \$8.3 million), dilution gains of \$3.7 million (fiscal 2013 – \$17.5 million) and a gain on the disposal of assets of \$1.2 million (fiscal 2013 – \$nil).

The following table adjusts reported EBITDA from investments and other operations for items which are considered not indicative of underlying business operating performance.

(\$ in millions)	52 Weeks Ended	
	May 3, 2014	May 4, 2013
EBITDA ⁽¹⁾⁽²⁾ (investments and other operations)	\$ 37.4	\$ 59.5
Adjustments:		
Organizational realignment and restructuring costs	9.1	–
Non-operating charge from equity accounted investment ⁽³⁾	2.5	8.3
Dilution gains	(3.7)	(17.5)
Gain on disposal of assets	(1.2)	–
	6.7	(9.2)
Adjusted EBITDA ⁽¹⁾	\$ 44.1	\$ 50.3

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

(2) EBITDA generated from Empire Theatres has been recorded in discontinued operations.

(3) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 includes a non-recurring cost of \$2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 52 weeks ended May 4, 2013 includes a non-recurring charge of \$8.3 million relating to Crombie REIT's restated earnings.

After adjusting for items which are considered not indicative of underlying business operating performance, investments and other operations' adjusted EBITDA for fiscal 2014 was \$44.1 million compared to \$50.3 million last year, a decrease of \$6.2 million or 12.3 percent.

Operating Income

Investments and other operations reported operating income of \$36.9 million in the 52 weeks ended May 3, 2014 versus \$58.8 million in the same period last year, a decrease of \$21.9 million.

After adjusting for items which are considered not indicative of underlying business operating performance, investment and other operations' contributed adjusted operating income to Empire for the 52 weeks ended May 3, 2014 of \$43.6 million compared to \$49.6 million in 52 weeks ended May 4, 2013, a decrease of \$6.0 million or 12.1 percent. Adjusted operating income excludes items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA.

The contributors to operating income in fiscal 2014 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were \$19.2 million in the 52 weeks ended May 3, 2014, up \$5.5 million from the \$13.7 million recorded in the 52 weeks ended May 4, 2013. The increase was primarily driven by increased property net operating income due to acquisitions and redevelopment activity, along with a non-operating charge of \$8.3 million incurred in fiscal 2013 relating to Crombie REIT's restated earnings, partially offset by non-recurring costs of \$2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were \$30.4 million in the 52 weeks ended May 3, 2014, an increase of \$0.8 million compared to \$29.6 million recorded in the same period last year, primarily as a result of stronger lot sales.
- Other operations, net of corporate expenses, contributed an operating (loss) income of \$(12.7) million in fiscal 2014, down \$28.2 million from the \$15.5 million recorded in fiscal 2013. Fiscal 2014 included organizational realignment and restructuring costs of \$9.1 million, dilution gains of \$3.7 million, and a gain on the disposal of assets of \$1.2 million (fiscal 2013 – \$nil, \$17.5 million, and \$nil, respectively).

Net Earnings

Investments and other operations contributed \$113.6 million to Empire's consolidated net earnings in the fiscal 2014 compared to \$45.3 million in fiscal 2013. The \$68.3 million increase is primarily attributed to an increase in net earnings from discontinued operations of \$77.2 million, partially offset by a decrease in net earnings from continuing operations of \$8.9 million, as discussed. Net earnings from discontinued operations include a gain from the re-measurement and disposal of assets and from restructuring costs, net of tax, on the sale of Empire Theatres of \$79.2 million.

The following table adjusts reported net earnings from continuing operations for items which are considered not indicative of underlying business operating performance.

(\$ in millions)	52 Weeks Ended	
	May 3, 2014	May 4, 2013
Net earnings from continuing operations (investments and other operations)	\$ 29.2	\$ 38.1
Adjustments ⁽¹⁾ :		
Organizational realignment and restructuring costs	6.3	–
Non-operating charge from equity accounted investment ⁽²⁾	1.8	5.9
Dilution gains	(2.6)	(12.5)
Gain on disposal of assets	(0.8)	–
	4.7	(6.6)
Adjusted net earnings from continuing operations ⁽³⁾	\$ 33.9	\$ 31.5

(1) All adjustments are net of income taxes.

(2) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 includes a non-recurring cost of \$1.8 million, net of tax, related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 52 weeks ended May 4, 2013 includes a non-recurring charge of \$5.9 million, net of tax, relating to Crombie REIT's restated earnings.

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

Adjusted Net Earnings from Continuing Operations

Investments and other operations contributed adjusted net earnings from continuing operations of \$33.9 million for the 52 weeks ended May 3, 2014 compared to a contribution of \$31.5 million last year, an increase of \$2.4 million. Included in net earnings from continuing operations in the 52 weeks ended May 3, 2014 were organizational realignment and restructuring costs, net of tax, of \$6.3 million, a non-operating charge from an equity accounted investment, net of tax, of \$1.8 million, dilution gains, net of tax, of \$2.6 million, and a gain on the disposal of assets of \$0.8 million, net of tax (52 weeks ended May 4, 2013 – \$nil, \$5.9 million, \$12.5 million, and \$nil, respectively).

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 2014				Fiscal 2013 ⁽¹⁾			
	Q4 (13 Weeks) May 3, 2014	Q3 (13 Weeks) Feb. 1, 2014	Q2 (13 Weeks) Nov. 2, 2013	Q1 (13 Weeks) Aug. 3, 2013	Q4 (13 Weeks) May 4, 2013	Q3 (13 Weeks) Feb. 2, 2013	Q2 (13 Weeks) Nov. 3, 2012	Q1 (13 Weeks) Aug. 4, 2012
(\$ in millions, except per share amounts)								
Sales	\$ 5,937.5	\$ 6,017.6	\$ 4,428.5	\$ 4,609.4	\$ 4,257.4	\$ 4,285.5	\$ 4,348.8	\$ 4,509.1
Operating income ⁽²⁾	22.9	65.3	106.4	133.9	150.3	109.7	138.2	175.0
Net earnings from continuing operations ⁽³⁾	1.5	6.4	60.5	82.6	102.5	71.4	90.3	108.1
Net (loss) earnings from discontinued operations	(0.7)	(6.0)	108.7	(17.6)	3.4	2.7	1.6	(0.5)
Net earnings ⁽³⁾	\$ 0.8	\$ 0.4	\$ 169.2	\$ 65.0	\$ 105.9	\$ 74.1	\$ 91.9	\$ 107.6
Per share information, basic								
Net earnings from continuing operations ⁽³⁾	\$ 0.02	\$ 0.07	\$ 0.89	\$ 1.22	\$ 1.51	\$ 1.05	\$ 1.33	\$ 1.59
Net (loss) earnings from discontinued operations	(0.01)	(0.07)	1.60	(0.26)	0.05	0.04	0.02	(0.01)
Net earnings ⁽³⁾	\$ 0.01	\$ -	\$ 2.49	\$ 0.96	\$ 1.56	\$ 1.09	\$ 1.35	\$ 1.58
Basic weighted average number of shares outstanding (in millions)	92.3	92.0	68.0	67.9	67.9	67.9	67.9	67.9
Per share information, diluted								
Net earnings from continuing operations ⁽³⁾	\$ 0.02	\$ 0.07	\$ 0.89	\$ 1.21	\$ 1.51	\$ 1.05	\$ 1.33	\$ 1.59
Net (loss) earnings from discontinued operations	(0.01)	(0.07)	1.59	(0.26)	0.05	0.04	0.02	(0.01)
Net earnings ⁽³⁾	\$ 0.01	\$ -	\$ 2.48	\$ 0.95	\$ 1.56	\$ 1.09	\$ 1.35	\$ 1.58
Diluted weighted average number of shares outstanding (in millions)	92.4	92.1	68.2	68.2	68.1	68.1	68.1	68.0

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 11 of the Company's fourth quarter unaudited condensed consolidated financial statements.

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

(3) Net of non-controlling interest.

As presented in the table above, the Company's sales on a comparable 13 week basis have continued to show improvement compared with the same quarter of the prior year. The ongoing improvement in sales continues to be mainly driven by the performance of Sobeys as a result of its adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution and product and services innovation. The 13 weeks ended February 1, 2014 was the first quarter to include sales from the Canada Safeway acquisition of 213 full service grocery stores, 200 in-store pharmacies, 62 co-located fuel stations and 10 liquor stores. 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.

Consolidated sales and net earnings, net of non-controlling interest, have been influenced by Sobeys' acquisition of Canada Safeway, the Company's other investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicity of both residential and commercial real estate, and by other risk factors as outlined in this MD&A.

Summary Table of Consolidated Financial Results for the Fourth Quarter

	13 Weeks Ended			
	May 3, 2014		May 4, 2013 ⁽¹⁾	
(\$ in millions, except per share amounts)		% of Sales		% of Sales
Sales	\$ 5,937.5	100.00%	\$ 4,257.4	100.00%
EBITDA ⁽²⁾	147.4	2.48%	238.6	5.60%
Adjusted EBITDA ⁽²⁾⁽³⁾	318.7	5.37%	230.1	5.40%
Operating income ⁽²⁾	22.9	0.39%	150.3	3.53%
Adjusted operating income ⁽²⁾⁽³⁾	199.0	3.35%	141.8	3.33%
Net earnings from continuing operations ⁽⁴⁾	1.5	0.03%	102.5	2.41%
Net (loss) earnings from discontinued operations	(0.7)	(0.01)%	3.4	0.08%
Net earnings ⁽⁴⁾	0.8	0.01%	105.9	2.49%
Adjusted net earnings from continuing operations ⁽²⁾⁽³⁾⁽⁴⁾	131.3	2.21%	95.7	2.25%
Basic earnings per share				
Net earnings from continuing operations ⁽⁴⁾	\$ 0.02		\$ 1.51	
Net (loss) earnings from discontinued operations	\$ (0.01)		\$ 0.05	
Net earnings ⁽⁴⁾	\$ 0.01		\$ 1.56	
Adjusted net earnings from continuing operations ⁽²⁾⁽³⁾⁽⁴⁾	\$ 1.42		\$ 1.41	
Basic weighted average number of shares outstanding (in millions)	92.3		67.9	
Diluted earnings per share				
Net earnings from continuing operations ⁽⁴⁾	\$ 0.02		\$ 1.51	
Net (loss) earnings from discontinued operations	\$ (0.01)		\$ 0.05	
Net earnings ⁽⁴⁾	\$ 0.01		\$ 1.56	
Adjusted net earnings from continuing operations ⁽²⁾⁽³⁾⁽⁴⁾	\$ 1.42		\$ 1.40	
Diluted weighted average number of shares outstanding (in millions)	92.4		68.1	

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 11 of the Company's fourth quarter unaudited condensed consolidated financial statements.

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

(3) Excludes items which are considered not indicative of underlying business operating performance.

(4) Net of non-controlling interest.

Sales

Consolidated sales for the fourth quarter of fiscal 2014 were \$5.94 billion compared to \$4.26 billion last year, a \$1.68 billion or 39.5 percent increase. Sales contributed by the food retailing segment equalled \$5.94 billion compared to \$4.26 billion in the fourth quarter of fiscal 2013. Excluding the impact of sales related to the Canada Safeway acquisition, consolidated sales increased \$94.3 million or 2.2 percent. Sobeys' same-store sales increased 0.2 percent during the fourth quarter of fiscal 2014.

For the 13 weeks ended May 3, 2014, Sobeys reported sales of \$5.95 billion, an increase of \$1.70 billion or 40.1 percent from the \$4.24 billion recorded last year. Excluding the impact of sales related to the Canada Safeway acquisition, Sobeys' fourth quarter sales increased \$115.1 million or 2.7 percent. The growth in Sobeys' fourth quarter sales was a direct result of continued increased retail selling square footage from new store and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

The following table shows a reconciliation of fourth quarter sales recorded by Sobeys.

(\$ in millions)	13 Weeks Ended		(\$) Change	(%) Change
	May 3, 2014	May 4, 2013		
Sobeys' reported sales	\$ 5,945.4	\$ 4,244.5	\$ 1,700.9	40.1%
Adjustment for the impact of the Canada Safeway acquisition	(1,585.8)	–	(1,585.8)	
Sobeys' adjusted sales	\$ 4,359.6	\$ 4,244.5	\$ 115.1	2.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Investments and other operations' sales for the fourth quarter of fiscal 2014 equalled \$0.5 million versus \$0.6 million in the fourth quarter of fiscal 2013, a decrease of \$0.1 million. Sales generated from Empire Theatres for the 13 weeks ended May 3, 2014 and May 4, 2013 have been recorded in discontinued operations. Please refer to Note 11 of the fourth quarter unaudited condensed consolidated financial statements ended May 3, 2014 for greater detail on the operating results from discontinued operations.

Gross Profit

Sobeys recorded gross profit of \$1,513.2 million for the 13 weeks ended May 3, 2014, an increase of \$517.3 million compared to the 13 weeks ended May 4, 2013. Gross margin increased 199 basis points from 23.46 percent in the fourth quarter of fiscal 2013 to 25.45 percent in the current quarter. The increase in gross profit and gross margin is largely a result of a \$502.4 million gross profit contribution related to the Canada Safeway acquisition. Excluding the impact related to Canada Safeway, gross margin would have been 23.18 percent, a decrease of 28 basis points compared to the fourth quarter last year. Overall gross profit and gross margin in the fourth quarter were also impacted by the following factors: (i) increased shrink primarily associated with Sobeys' fresh retail inventory turns as well as shrink associated with the new and innovative commercial programs as part of Sobeys' strategy to help Canadians *Eat Better, Feel Better, Do Better*; (ii) a highly promotional environment; (iii) a weaker CAD relative to the USD which affected the CAD cost of U.S. purchases; and (iv) ongoing drug regulatory reform which impacted the number of generic products and generic prescription reimbursement rates.

EBITDA

Consolidated EBITDA in the fourth quarter of fiscal 2014 was \$147.4 million compared to \$238.6 million last year, a decrease of \$91.2 million or 38.2 percent. EBITDA margin decreased 312 basis points to 2.48 percent in the fourth quarter of fiscal 2014 from 5.60 percent last year.

The contributors to the change in consolidated EBITDA from the fourth quarter last year were as follows:

- Sobeys contributed EBITDA to Empire of \$130.3 million versus \$217.5 million in the fourth quarter of fiscal 2013, a decrease of \$87.2 million or 40.1 percent. Included in Sobeys' EBITDA for the fourth quarter were network rationalization costs of \$169.8 million and plant closure costs of \$1.0 million. Partially offsetting these costs were \$89.5 million of EBITDA related to the Canada Safeway acquisition and a reduction in transaction costs associated with the Canada Safeway acquisition of \$1.8 million. In the fourth quarter, Sobeys recorded \$23.0 million of cost reductions as a result of synergies realized related to the acquisition.
- Investments and other operations contributed EBITDA of \$17.1 million in 13 weeks ended May 3, 2014 compared to \$21.1 million last year, a decrease of \$4.0 million or 19.0 percent.

The following table adjusts reported EBITDA for items which are considered not indicative of underlying business operating performance.

(\$ in millions)	13 Weeks Ended	
	May 3, 2014	May 4, 2013
EBITDA ⁽¹⁾ (consolidated)	\$ 147.4	\$ 238.6
Adjustments:		
Network rationalization	169.8	–
Transaction costs associated with the Canada Safeway acquisition	3.2	5.0
Plant closure	1.0	–
Gain on disposal of assets	(2.7)	(14.8)
Organizational realignment and restructuring costs	–	2.0
Non-operating charge from equity accounted investment	–	1.5
Québec distribution network restructuring	–	(0.7)
Dilution gains	–	(1.5)
	171.3	(8.5)
Adjusted EBITDA ⁽¹⁾	\$ 318.7	\$ 230.1

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

After adjusting for items which are considered not indicative of underlying business operating performance, adjusted EBITDA for the fourth quarter of fiscal 2014 was \$318.7 million (5.37 percent of sales) versus \$230.1 million (5.40 percent of sales) last year, an increase of \$88.6 million or 38.5 percent.

Operating Income

The Company reported operating income of \$22.9 million for the 13 weeks ended May 3, 2014 compared to \$150.3 million for the 13 weeks ended May 4, 2013. The decrease in operating income of \$127.4 million is a result of a lower operating income contribution from the food retailing segment of \$122.8 million, along with a lower contribution from investments and other operations of \$4.6 million.

- Sobeys contributed operating income to Empire in the fourth quarter of \$6.0 million compared to \$128.8 million last year. The \$122.8 million decline is due primarily to network rationalization costs of \$169.8 million, increased depreciation and amortization expenses of \$19.0 million and \$4.8 million incurred in the current quarter related to the Canada Safeway acquisition, partially offset by \$61.4 million of operating income related to the Canada Safeway acquisition.
- Equity earnings from the Company's investment in Crombie REIT were \$6.9 million, an increase of \$2.0 million or 40.8 percent compared to \$4.9 million recorded last year. Included in equity earnings for the 13 weeks ended May 4, 2013 was a one-time charge of \$1.5 million relating to Crombie REIT's restated earnings.
- Real estate partnerships (Genstar) contributed equity earnings of \$10.9 million in the fourth quarter, down \$2.8 million from the fourth quarter of fiscal 2013.
- Other operations, net of corporate expenses, contributed an operating (loss) income of \$(0.9) million versus \$2.9 million in the fourth quarter of the prior year. Included in other operations, net of corporate expenses, in the fourth quarter of fiscal 2013 were dilution gains of \$1.5 million.

After adjusting for items which are considered not indicative of underlying business operating performance, adjusted operating income in the fourth quarter of fiscal 2014 was \$199.0 million compared to \$141.8 million last year, an increase of \$57.2 million or 40.3 percent. Adjusted operating income excludes items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, along with intangible amortization related to the Canada Safeway acquisition of \$4.8 million.

Finance Costs

Consolidated finance costs, net of finance income, in the fourth quarter of fiscal 2014 equalled \$47.6 million versus \$13.6 million last year. The \$34.0 million increase primarily relates to higher interest expense of \$32.6 million due to increased debt levels as a result of the financing for the Canada Safeway acquisition.

Income Taxes

During the quarter, the Company completed a re-measurement of its deferred income tax provision and have adjusted certain deferred tax attributes and the associated substantively enacted rates that have been applied. This re-measurement, described more fully above, accounted for substantially all of the change when compared to the same period in the prior year.

Net Earnings from Continuing Operations

Consolidated net earnings from continuing operations, net of non-controlling interest, in the 13 weeks ended May 3, 2014 equalled \$1.5 million (\$0.02 per diluted share) compared to \$102.5 million (\$1.51 per diluted share) in the same period of the prior year. The decrease of \$101.0 million is largely a result of \$123.8 million, net of tax, of network rationalization costs incurred in the fourth quarter of fiscal 2014. Net earnings related to Canada Safeway operations for the 13 weeks ended May 3, 2014 were \$42.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below adjusts reported net earnings from continuing operations, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance. Net earnings from continuing operations for the 13 weeks ended May 3, 2014 included \$123.8 million, net of tax, relating to network rationalization costs.

(\$ in millions, except per share amounts, net of tax)	13 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾
Net (loss) earnings from continuing operations by segment ⁽²⁾ :		
Food retailing	\$ (17.6)	\$ 87.4
Investments and other operations	19.1	15.1
Net earnings from continuing operations ⁽²⁾	\$ 1.5	\$ 102.5
EPS from continuing operations (fully diluted)	\$ 0.02	\$ 1.51
Adjustments ⁽³⁾ :		
Network rationalization	123.8	–
Intangible amortization associated with the Canada Safeway acquisition	3.5	–
Transaction costs associated with the Canada Safeway acquisition	2.5	4.0
Plant closure	0.8	–
Gain on disposal of assets	(0.8)	(11.8)
Organizational realignment and restructuring costs	–	1.5
Non-operating charge from equity accounted investment ⁽⁴⁾	–	1.1
Québec distribution network restructuring	–	(0.5)
Dilution gains	–	(1.1)
	129.8	(6.8)
Adjusted net earnings from continuing operations ⁽²⁾⁽⁵⁾	\$ 131.3	\$ 95.7
Adjusted net earnings from continuing operations by segment ⁽²⁾ :		
Food retailing	\$ 112.2	\$ 80.6
Investments and other operations	19.1	15.1
Adjusted net earnings from continuing operations ⁽²⁾⁽⁵⁾	\$ 131.3	\$ 95.7
Adjusted EPS from continuing operations (fully diluted)	\$ 1.42	\$ 1.40
Diluted weighted average number of shares outstanding (in millions)	92.4	68.1

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 11 of the Company's fourth quarter unaudited condensed consolidated financial statements.

(2) Net of non-controlling interest.

(3) All adjustments are net of income taxes.

(4) 13 weeks ended May 4, 2013 includes a non-recurring charge of \$1.1 million, net of tax, relating to Crombie REIT's restated earnings.

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

Adjusted Net Earnings from Continuing Operations

For the 13 weeks ended May 3, 2014, after factoring in the impact of the above-noted items, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest, of \$131.3 million (\$1.42 per diluted share) compared to \$95.7 million (\$1.40 per diluted share) in the same period last year.

Net Earnings

Consolidated net earnings, net of non-controlling interest, in the 13 weeks ended May 3, 2014 equalled \$0.8 million (\$0.01 per diluted share) compared to \$105.9 million (\$1.56 per diluted share) in the same period of fiscal 2013. The decrease of \$105.1 million is due to a \$101.0 million decrease in net earnings from continuing operations, net of non-controlling interest, as mentioned, accompanied by a decrease in net earnings from discontinued operations of \$4.1 million. Net (loss) earnings from discontinued operations in the fourth quarter of fiscal 2014 equalled \$(0.7) million (\$(0.01) per diluted share) compared to \$3.4 million (\$0.05 per diluted share) in the prior year, a decrease of \$4.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reconciles Empire's segmented net earnings from continuing operations, net of non-controlling interest, to net earnings, net of non-controlling interest, for the 13 weeks ended May 3, 2014 compared to the 13 weeks ended May 4, 2013:

(\$ in millions, except per share amounts, net of tax)	13 Weeks Ended		(\$) Change
	May 3, 2014	May 4, 2013 ⁽¹⁾	
Net (loss) earnings from continuing operations by segment ⁽²⁾ :			
Food retailing	\$ (17.6)	\$ 87.4	\$ (105.0)
Investments and other operations	19.1	15.1	4.0
Net earnings from continuing operations ⁽²⁾	\$ 1.5	\$ 102.5	\$ (101.0)
EPS from continuing operations (fully diluted)	\$ 0.02	\$ 1.51	\$ (1.49)
Net (loss) earnings from discontinued operations	(0.7)	3.4	(4.1)
Net (loss) earnings by segment ⁽²⁾ :			
Food retailing	\$ (17.6)	\$ 87.4	\$ (105.0)
Investments and other operations	18.4	18.5	(0.1)
Net earnings ⁽²⁾	\$ 0.8	\$ 105.9	\$ (105.1)
EPS (fully diluted)	\$ 0.01	\$ 1.56	\$ (1.55)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 11 of the Company's fourth quarter unaudited condensed consolidated financial statements.

(2) Net of non-controlling interest.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

The acquisition of Canada Safeway effective November 3, 2013, resulted in a significant change to the capital structure of the Company as a result of capital stock issuance of \$1.84 billion (excluding issuance costs) and long-term debt issuance of \$3.02 billion. The key financial condition measures are presented in the table below.

(\$ in millions, except per share and ratio calculations)	May 3, 2014	May 4, 2013 ⁽¹⁾	May 5, 2012
Shareholders' equity, net of non-controlling interest	\$ 5,700.5	\$ 3,724.8	\$ 3,396.3
Book value per common share ⁽²⁾	\$ 61.75	\$ 54.82	\$ 49.98
Bank indebtedness	\$ —	\$ 6.0	\$ 4.4
Long-term debt, including current portion	\$ 3,497.9	\$ 963.5	\$ 1,126.4
Funded debt to total capital ⁽²⁾	38.0%	20.7%	25.0%
Net funded debt to net total capital ⁽²⁾	35.0%	12.1%	15.4%
Funded debt to EBITDA ⁽²⁾⁽³⁾	4.6x	1.1x	1.3x
EBITDA to interest expense ⁽²⁾⁽³⁾	5.7x	17.9x	14.4x
Current assets to current liabilities ⁽²⁾	1.0x	1.0x	0.9x
Total assets	\$ 12,238.0	\$ 7,140.4	\$ 6,913.1
Free cash flow ⁽²⁾	\$ 869.1	\$ 430.2	\$ 407.9

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.

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

(3) Ratios for May 3, 2014 and May 4, 2013 exclude EBITDA and interest expense relating to discontinued operations.

Shareholders' Equity

The increase in shareholders' equity of \$1.98 billion from fiscal 2013 largely reflects the increase in the Company's capital stock from the \$1.84 billion offering of Subscription Receipts in July 2013 which were exchanged into Non-Voting Class A shares on November 4, 2013, and growth in retained earnings. Book value per common share was \$61.75 at May 3, 2014 compared to \$54.82 at the end of fiscal 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's share capital on May 3, 2014 consisted of:

	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	257,044,056	58,049,484	2,101.0
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			\$ 2,108.6

There were 58,049,484 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 3, 2014 for a total of 92,310,247 shares outstanding. This compares to 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares for a total of 67,948,510 shares outstanding at May 4, 2013. During fiscal 2014, Empire issued an additional 24,265,000 Non-Voting Class A shares upon the exchange of Subscription Receipts and issued 96,737 Non-Voting Class A shares from the exercise of options.

Empire had 934,366 options outstanding at May 3, 2014 compared to 684,128 options outstanding at May 4, 2013. During fiscal 2014, 826,799 options were granted, 291,980 options were purchased, 240,940 options were exercised and 43,641 options were forfeited. During fiscal 2013, 45,310 options were granted and none were purchased, exercised or forfeited.

The table below presents the number of outstanding options and weighted average exercise price over the last two fiscal years.

	Fiscal 2014		Fiscal 2013	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Balance, beginning of year	684,128	\$ 47.06	638,818	\$ 46.57
Granted	826,799	78.89	45,310	53.93
Purchased	(291,980)	46.89	–	–
Exercised	(240,940)	44.16	–	–
Forfeited	43,641	78.46	–	–
Balance, end of year	934,366	\$ 74.56	684,128	\$ 47.06
Stock options exercisable, end of year	101,289		468,450	

The 934,366 stock options outstanding as at the fiscal year ended May 3, 2014 (May 4, 2013 – 684,128 stock options) represents 1.0 percent (May 4, 2013 – 1.0 percent) of the outstanding Non-Voting Class A and Class B common shares.

On July 31, 2013, in connection with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway, the Company announced that it closed its previously announced offering of 21.1 million Subscription Receipts at a price of \$76.00 per Subscription Receipt, along with the syndicate of underwriters exercising in full their over-allotment option of 3.165 million Subscription Receipts, for a total of 24.265 million Subscription Receipts. The total gross proceeds were approximately \$1,844.1 million. Upon closing of the Canada Safeway acquisition, the 24.265 million Subscription Receipts were exchanged for Non-Voting Class A shares and net proceeds were used to partially finance the Canada Safeway acquisition. Further information on the Sobeys' Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in the "Business Acquisition" section of this MD&A.

Subsequent to the end of fiscal 2014, on June 11, 2014, 77,039 options were exercised resulting in an additional 19,225 Non-Voting Class A shares being issued. As at June 26, 2014, the Company had Non-Voting Class A and Class B common shares outstanding of 58,068,709 and 34,260,763, respectively, as well as 857,327 options to acquire in aggregate 857,327 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$83.3 million in fiscal 2014 (\$1.04 per share) versus \$65.2 million (\$0.96 per share) in fiscal 2013.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at May 3, 2014 was \$3,497.9 million, representing 100.0 percent of Empire's total funded debt.

The composition of total funded debt by segment is as follows:

(\$ in millions)	May 3, 2014	May 4, 2013	May 5, 2012
Bank indebtedness			
Investments and other operations	\$ –	\$ 6.0	\$ 4.4
Long-term debt (including current portion)			
Food retailing	3,387.3	765.2	975.6
Investments and other operations	110.6	198.3	150.8
Total funded debt ⁽¹⁾	\$ 3,497.9	\$ 969.5	\$ 1,130.8

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

Consolidated funded debt was \$3,497.9 million at May 3, 2014 compared to \$969.5 million at May 4, 2013, an increase of \$2,528.4 million. The increase in consolidated funded debt from the prior year was a result of the financing associated with the Canada Safeway acquisition, as described below.

On August 8, 2013, in connection with the financing associated with the Canada Safeway acquisition, Sobeys completed a private placement of \$500.0 million in aggregate principal amount of 3.52 percent Notes, Series 2013-1 due August 8, 2018 (the "Series 2013-1 Notes") and \$500.0 million aggregate principal amount of 4.70 percent Notes, Series 2013-2 due August 8, 2023 (the "Series 2013-2 Notes" and together with the Series 2013-1 Notes, the "Notes"). The aggregate net proceeds were approximately \$987.1 million after deducting underwriting fees and the purchase discount on the Series 2013-1 Notes. Upon closing of the Canada Safeway acquisition, the net proceeds of \$987.1 million were released from escrow and used to partially finance the Canada Safeway acquisition. Further information on the Sobeys' Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in the "Business Acquisition" section of this MD&A.

Pursuant to an agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of \$1,825.0 million; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of \$1,327.9 million; and a revolving term credit facility (the "RT Facility") in the amount of \$450.0 million.

On November 4, 2013, the RT Facility replaced Sobeys' previous unsecured revolving term credit facility of \$450.0 million, the Acquisition Facility was fully drawn for \$1,825.0 million and the Bridge Facility was drawn for \$200.0 million in order to partially finance the Canada Safeway acquisition. As of May 3, 2014, the outstanding amount of the Acquisition Facility was \$1,625.0 million, the Bridge Facility was fully repaid and matured, and Sobeys had issued \$79.0 million in letters of credit against the RT Facility (May 4, 2013 – \$80.6 million). Deferred financing fees in the amount of \$29.3 million were incurred on the drawdown of the Acquisition and Bridge Facilities and have been offset against the long-term debt amounts for presentation purposes. Interest payable on the Acquisition and RT Facilities fluctuates with changes in the bankers' acceptance rate or Canadian prime rate, and both facilities mature on November 4, 2017.

On September 26, 2012, Empire extended the term of its credit facility to a maturity date of June 30, 2015. On November 4, 2013, Empire further extended the term of its credit facility to a maturity date of November 4, 2017. Interest payable on the credit facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate.

The ratio of funded debt to total capital has increased 17.3 percentage points to 38.0 percent from 20.7 percent at the end of fiscal 2013. The increase in funded debt was primarily a result of the financing associated with the Canada Safeway acquisition which closed during the third quarter of fiscal 2014 and was offset by growth in retained earnings over fiscal 2014 and the issuance of capital stock.

Empire's funded debt to EBITDA ratio increased to 4.6 times at May 3, 2014 compared to 1.1 times at the end of fiscal 2013, largely as a result of the increase in funded debt, as mentioned, accompanied by a decline in EBITDA (\$755.3 million at May 3, 2014 versus \$918.1 million at May 4, 2013).

Empire's EBITDA to interest expense ratio decreased from 17.9 times recorded at May 4, 2013 to 5.7 times at May 3, 2014. The decrease from fiscal 2013 is primarily due to an increase in interest expense (\$132.5 million in fiscal 2014 versus \$51.3 million in fiscal 2013) from higher funded debt levels associated with the Canada Safeway acquisition accompanied by a decline in EBITDA.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On June 14, 2013, following the announcement of the Canada Safeway acquisition, Standard and Poor's ("S&P") reaffirmed Sobeys' credit rating of BBB- but revised its outlook from stable to negative. On July 16, 2013, Dominion Bond Rating Service ("DBRS") downgraded Sobeys' credit rating from BBB with a stable trend to BBB (low) with a stable trend.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 14 and 16 to the Company's audited annual consolidated financial statements for the 52 weeks ended May 3, 2014.

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 as deemed appropriate to mitigate risk exposure to one or more types of financial risk. The Company does not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 52 weeks ended May 3, 2014 or for the comparative periods in fiscal 2013.

When the Company enters 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 as deemed appropriate should a counterparty's credit profile change materially.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of \$1.015 CAD/USD to mitigate the currency risk associated with a USD denominated variable rate lease. The term of the swap matches the term of the variable rate lease. As of May 3, 2014, Sobeys recognized an asset of \$0.2 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact fair value of the instrument by plus/(minus) \$0.6 million and would impact other comprehensive income by plus/(minus) \$0.4 million.

To mitigate the currency risk associated with some of Sobeys' British Pound ("GBP") purchases, Sobeys enters into forward currency contracts with staggered maturities to hedge against the effect of the changes in the value of the CAD relative to the GBP. As of May 3, 2014, Sobeys had recognized an asset of \$0.3 million representing the fair value of GBP denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact fair value of the instrument by plus/(minus) \$0.4 million and would impact other comprehensive income by plus/(minus) \$0.3 million.

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 at May 3, 2014 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.

For additional disclosure on Empire's use of financial instruments, see Notes 3 and 27 to the Company's annual audited financial statements for the 52 weeks ended May 3, 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities; and
- Cash generated from operating activities.

At May 3, 2014, consolidated cash and cash equivalents were \$429.3 million versus \$455.2 million at May 4, 2013.

At the end of fiscal 2014, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450.0 million, of which \$110.5 million or 24.6 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by \$710.5 million at May 3, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 its various sources of funds are diversified by term to maturity and source of credit.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 52 weeks ended May 3, 2014 and for the 52 weeks ended May 4, 2013.

The following table highlights major cash flow components for the 13 and 52 weeks ended May 3, 2014 compared to the 13 and 52 weeks ended May 4, 2013:

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾	May 3, 2014	May 4, 2013 ⁽¹⁾
Net earnings	\$ 1.3	\$ 106.9	\$ 243.4	\$ 388.6
Non-cash and other cash items	315.5	130.6	717.2	552.5
Net change in non-cash working capital	165.0	25.1	38.4	(73.6)
Income taxes paid, net	(43.1)	(24.9)	(211.6)	(86.5)
Cash flows from operating activities	438.7	237.7	787.4	781.0
Cash flows from (used) in investing activities	178.0	(89.5)	(4,867.7)	(548.2)
Cash flows (used in) from financing activities	(472.0)	(63.5)	4,054.4	(287.8)
Increase (decrease) in cash and cash equivalents	\$ 144.7	\$ 84.7	\$ (25.9)	\$ (55.0)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's audited annual consolidated financial statements.

Operations

The fourth quarter of fiscal 2014 generated cash flows from operating activities of \$438.7 million compared to \$237.7 million in the fourth quarter last year. The \$201.0 million increase is attributed to an increase in non-cash and other cash items of \$184.9 million and an increase in the net change in non-cash working capital of \$139.9 million, partially offset by a decline in net earnings of \$105.6 million and an increase in income taxes paid, net, of \$18.2 million.

For the 52 weeks ended May 3, 2014, cash flows from operating activities were \$787.4 million compared to \$781.0 million in the prior year. The increase of \$6.4 million is due to a decline in net earnings of \$145.2 million and an increase in income taxes paid, net, of \$125.1 million, partially offset by an increase in non-cash and other cash items of \$164.7 million and an increase in the net change in non-cash working capital of \$112.0 million.

The following table presents non-cash working capital changes on a quarter-over-quarter basis:

(\$ in millions)	13 Weeks Ended			
	May 3, 2014	Feb. 1, 2014	May 3, 2014 (Decrease) Increase in Cash Flows	May 4, 2013 (Decrease) Increase in Cash Flows
Receivables	\$ 460.5	\$ 424.5	\$ (36.0)	\$ (57.1)
Inventories	1,310.2	1,323.2	13.0	(5.8)
Prepaid expenses	114.3	93.5	(20.8)	(13.8)
Accounts payable and accrued liabilities	(2,246.0)	(2,040.3)	205.7	108.8
Provisions	(82.4)	(32.5)	49.9	(6.8)
Impact of reclassifications on working capital	46.8	–	(46.8)	(0.2)
Total	\$ (396.6)	\$ (231.6)	\$ 165.0	\$ 25.1

The net change in non-cash working capital of \$165.0 million in the fourth quarter is largely attributed to: (i) an increase in accounts payable and accrued liabilities of \$205.7 million versus \$108.8 million last year, due primarily to the Canada Safeway acquisition; (ii) an increase in provisions of \$49.9 million, primarily a result of restructuring provisions for closed store locations related to the network rationalization; and (iii) a decrease in inventories of \$13.0 million. Partially offsetting these sources of cash were: (i) the impact of reclassifications on working capital of \$46.8 million; (ii) an increase in receivables of \$36.0 million; and (iii) an increase in prepaid expenses of \$20.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's ratio of current assets to current liabilities remained consistent at 1.0 times at the end of fiscal 2014 compared to fiscal 2013.

Investment

Cash generated from investing activities of \$178.0 million in the fourth quarter of fiscal 2014 increased \$267.5 million compared to cash used of \$89.5 million last year. The increase was primarily the result of: (i) an increase in proceeds on the disposal of property, equipment and investment property of \$272.8 million; (ii) an increase in cash generated from other assets and other long-term liabilities of \$15.3 million; (iii) an increase in cash generated from loans and other receivables of \$14.4 million; and (iv) an increase in cash generated from investments of \$13.6 million. Partially offsetting these sources of cash was an increase in property, equipment and investment property purchases of \$35.2 million.

Consolidated purchases of property, equipment and investment properties totalled \$166.8 million in the 13 weeks ended May 3, 2014 compared to \$131.6 million in the 13 weeks ended May 4, 2013. Proceeds on the disposal of property, equipment and investment properties increased \$272.8 million from \$81.4 million recorded in the fourth quarter of fiscal 2013 to \$354.2 million recorded in the fourth quarter of fiscal 2014, largely due to the proceeds from divested stores.

For the 52 weeks ended May 3, 2014, cash used in investing activities was \$4,867.7 million compared to cash used of \$548.2 million last year, an increase of \$4,319.5 million. The increase was primarily the result of: (i) an increase in cash used in business acquisitions of \$5,807.1 million from the Canada Safeway acquisition; and (ii) an increase in property, equipment and investment property purchases of \$39.5 million. Partially offsetting these uses of cash were: (i) an increase in proceeds on the disposal of property, equipment and investment property of \$1,463.3 million; (ii) an increase in cash generated from loans and other receivables of \$40.3 million; and (iii) proceeds on the sale of asset-backed commercial paper of \$26.0 million.

For the 52 weeks ended May 3, 2014, consolidated purchases of property, equipment and investment properties totalled \$571.4 million compared to \$531.9 million in the same period last year. Proceeds on the disposal of property, equipment and investment properties increased \$1,463.3 million from \$181.1 million recorded in the 52 weeks ended May 4, 2013 to \$1,644.4 million recorded in the 52 weeks ended May 3, 2014. This increase is primarily due to the sale-leaseback transaction with Crombie REIT for \$991.3 million combined with \$337.7 million in proceeds related to the divested stores.

The table below outlines the number of stores Sobeys invested in during the 13 and 52 weeks ended May 3, 2014 compared to the 13 and 52 weeks ended May 4, 2013:

# of stores	13 Weeks Ended		52 Weeks Ended	
	May 3, 2014	May 4, 2013	May 3, 2014	May 4, 2013
Opened/acquired/relocated	37	16	94	45
Acquired in Canada Safeway acquisition	–	–	223	–
Expanded	1	1	4	2
Rebanned/redeveloped	3	–	11	7
Divested	19	–	19	–
Closed	23	12	45	37

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 3, 2014, by type:

Square feet (in thousands)	13 Weeks Ended	52 Weeks Ended
	May 3, 2014	May 3, 2014
Opened	386	1,114
Relocated	52	101
Acquired	–	9,307
Expanded	10	47
Divested	(752)	(752)
Closed	(311)	(628)
Net change	(615)	9,189

At May 3, 2014, Sobeys' square footage totalled 38.7 million square feet, a 31.2 percent increase over the 29.5 million square feet operated at the end of the fourth quarter last year. This increase was primarily due to the Canada Safeway acquisition, net of divested stores.

Financing

Financing activities during the third quarter used \$472.0 million of cash compared to cash used of \$63.5 million in the same quarter last year. The increase in cash used of \$408.5 million is primarily the result of: (i) an increase in the repayment of long-term debt of \$387.9 million as proceeds from the sale of divested stores were applied against bank borrowings; (ii) an increase in interest paid of \$32.8 million; (iii) an increase in dividends paid of \$7.7 million; (iv) a decrease in bank indebtedness of \$4.9 million; and (v) deferred debt financing costs of \$3.7 million. Sources of cash generated during the fourth quarter of fiscal 2014 included an increase in the issuance of long-term debt of \$28.6 million.

For the 52 weeks ended May 3, 2014, cash generated from financing activities equalled \$4,054.4 million compared to cash used of \$287.8 million in the same period last year. The increase of \$4,342.2 million is primarily a result of financing transactions surrounding the Canada Safeway acquisition. Sources of cash generated during the 52 weeks ended May 3, 2014 included: (i) an increase in the issuance of long-term debt of \$3,203.9 million and (ii) the issuance of Non-Voting Class A shares of \$1,842.6 million. Partially offsetting these sources of cash were: (i) an increase in the repayment of long-term debt of \$495.6 million; (ii) share issuance costs of \$75.9 million; (iii) deferred debt financing costs of \$50.6 million; (iv) an increase in interest paid of \$47.4 million; (v) an increase in dividends paid of \$18.1 million; (vi) stock option purchases of \$9.1 million; and (vii) a decrease in bank indebtedness of \$7.6 million.

Free Cash Flow

Free cash flow is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 13 and 52 weeks ended May 3, 2014 and the 13 and 52 weeks ended May 4, 2013.

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 3, 2014	May 4, 2013 ⁽¹⁾	May 3, 2014	May 4, 2013 ⁽¹⁾
Cash flows from operating activities	\$ 438.7	\$ 237.7	\$ 787.4	\$ 781.0
Plus: proceeds on disposal of property, equipment and investment property ⁽²⁾	354.2	81.4	653.1	181.1
Less: property, equipment and investment property purchases	(166.8)	(131.6)	(571.4)	(531.9)
Free cash flow ⁽³⁾	\$ 626.1	\$ 187.5	\$ 869.1	\$ 430.2

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's audited annual consolidated financial statements.

(2) Excludes \$991.3 million related to the sale-leaseback of acquired real estate with Crombie REIT, which was simultaneously used to partially fund the Canada Safeway acquisition.

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

Free cash flow generation in the fourth quarter of fiscal 2014 was \$626.1 million compared to \$187.5 million generated in the fourth quarter last year. The \$438.6 million increase in free cash flow was due to an increase in proceeds on the disposal of property, equipment and investment property of \$272.8 million associated primarily with the divestiture of stores as part of the Canada Safeway acquisition, combined with an increase in cash flows from operating activities of \$201.0 million. This was partially offset by an increase in property, equipment and investment property purchases of \$35.2 million. The \$201.0 million increase in cash flows from operating activities is attributed to an increase in non-cash and other cash items of \$184.9 million and an increase in the net change in non-cash working capital of \$139.9 million, partially offset by a decline in net earnings of \$105.6 million and an increase in income taxes paid, net, of \$18.2 million.

For the 52 weeks ended May 3, 2014, free cash flow generation was \$869.1 million compared to \$430.2 million generated last year. The \$438.9 million increase in free cash flow was due to a \$472.0 million increase in proceeds on the disposal of property, equipment and investment property which is in part due to the sale of Empire Theatres, and a \$6.4 million increase in cash flows from operating activities; partially offset by a \$39.5 million increase in property, equipment and investment property purchases. The increase of \$6.4 million in cash flows from operating activities is due to a decline in net earnings of \$145.2 million and an increase in income taxes paid, net, of \$125.1 million, partially offset by an increase in non-cash and other cash items of \$164.7 million and an increase in the net change in non-cash working capital of \$112.0 million.

Business Acquisition

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of \$5.8 billion, subject to a working capital adjustment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The agreement included the purchase of:

- 213 full service grocery stores under the Safeway banner in Western Canada;
- 200 in-store pharmacies;
- 62 co-located fuel stations;
- 10 liquor stores;
- 4 primary distribution centres; and
- 12 manufacturing facilities.

On October 22, 2013, regulatory clearance was obtained from the Competition Bureau which required the divestiture of 23 Sobeys and Canada Safeway stores. During the Company's fourth quarter, 12 of the 23 stores were divested, and the remaining 11 stores have been included in assets held for sale as of May 3, 2014. The Canada Safeway acquisition closed effective Sunday, November 3, 2013 with funds being delivered on Monday, November 4, 2013.

Empire and Sobeys financed the acquisition with a combination of the following:

- Empire equity offering of \$1,844.1 million, net of fees of \$75.8 million, which closed on July 31, 2013, as discussed in the "Shareholders' Equity" section of this MD&A;
- A \$991.3 million sale-leaseback of acquired real estate assets, as discussed in the "Related Party Transactions" section of this MD&A;
- Term credit facilities of \$2,025.0 million;
- The issuance of \$1,000.0 million in unsecured notes by Sobeys, as discussed in the "Liabilities" section of this MD&A; and
- Available cash on hand.

Crombie REIT and its subsidiaries have a right of first offer in respect of any real estate sales undertaken by Sobeys.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

(\$ in millions)	
Inventories	\$ 451.0
Property, equipment and investment property	1,096.6
Assets held for sale	391.4
Assets acquired for sale-leaseback	991.3
Intangibles	444.8
Deferred tax assets	40.3
Accounts payable and accrued liabilities	(397.7)
Pension obligations	(137.5)
Deferred tax liabilities	(8.7)
Other assets and liabilities	49.5
Total identifiable net assets	\$ 2,921.0
Excess consideration paid over identifiable net assets acquired allocated to goodwill	\$ 2,879.0

The fair value of the identifiable net assets and goodwill acquired effective November 3, 2013 have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Goodwill of \$2,879.0 million was recognized as the excess of the acquisition cost over the fair value of the identifiable net assets at the date of the acquisition. The goodwill recognized is attributable mainly to the expected synergies from integration, the expected future growth potential in grocery store operations and the customer base of the acquired retail store locations. Approximately \$2,220.6 million of goodwill is expected to be deductible for income tax purposes.

Pre-tax acquisition costs of \$97.8 million relating to external legal, consulting, due diligence, financial advisory and other closing costs incurred during the 52 weeks ended May 3, 2014, have been included in selling and administrative expenses in the audited consolidated statements of earnings.

Guarantees and Commitments

Guarantees

Franchise 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 franchise 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 franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of \$7.0 million or 9.9 percent (fiscal 2013 – \$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 3, 2014, the amount of the guarantee was \$7.0 million (fiscal 2013 – \$7.0 million).

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee, should franchise 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 \$70.0 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 independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should franchisee 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 (fiscal 2013 – \$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 independent franchisees. 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 3, 2014, the amount of the guarantee was \$6.0 million (fiscal 2013 – \$6.0 million).

The minimum rent payments under the guaranteed operating equipment leases over the next five fiscal years are:

(\$ in millions)	Third Parties
2015	\$ 13.5
2016	0.3
2017	–
2018	–
2019	–
Thereafter	–

Other

At May 3, 2014, the Company was contingently liable for letters of credit issued in the aggregate amount of \$94.6 million (fiscal 2013 – \$97.8 million).

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 of its obligations under the lease. The remaining term of the lease is six years with an aggregate obligation of \$19.5 million (fiscal 2013 – \$22.6 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.

Commitments

Long-Term Debt

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

(\$ in millions)	
2015	\$ 218.3
2016	209.2
2017	205.4
2018	1,293.5
2019	508.0
Thereafter	1,043.2

Finance Leases Liabilities

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

(\$ in millions)	Future Minimum Lease Payments		Present Value of Minimum Lease Payments	
		Interest		
2015	\$ 14.1	\$ 3.0	\$ 11.1	
2016	12.3	2.6	9.7	
2017	11.6	2.1	9.5	
2018	9.0	1.7	7.3	
2019	7.4	1.4	6.0	
Thereafter	30.6	8.8	21.8	
	\$ 85.0	\$ 19.6	\$ 65.4	

During fiscal 2014, the Company increased its finance lease obligation, excluding \$37.0 million related to the Canada Safeway acquisition, by \$2.4 million (fiscal 2013 – \$8.8 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, theatres, offices and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 3, 2014 is approximately \$3,857.2 million. This reflects a gross lease obligation of \$4,838.0 million reduced by expected sub-lease income of \$980.8 million. The net commitments over the next five fiscal years are:

(\$ in millions)	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2015	\$ 226.9	\$ 340.9	\$ 123.7	\$ 123.7
2016	198.5	305.9	122.0	122.0
2017	178.8	274.8	122.1	122.1
2018	158.4	243.3	121.4	121.4
2019	139.7	213.5	122.9	122.9
Thereafter	787.6	1,292.3	1,555.2	1,555.2

The Company recorded \$500.0 million (fiscal 2013 – \$440.0 million) as an expense for minimum lease payments for the fiscal year ended May 3, 2014 in the consolidated statements of earnings. The expense was offset by sub-lease income of \$155.9 million (fiscal 2013 – \$129.9 million), and a further \$11.9 million (fiscal 2013 – \$9.2 million) of expense was recognized for contingent rent.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Leases, as Lessor

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

Rental income for the fiscal year ended May 3, 2014 was \$34.3 million (fiscal 2013 – \$59.2 million) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized \$0.9 million of contingent rent for the fiscal year ended May 3, 2014 (fiscal 2013 – \$1.0 million).

The lease payments expected to be received over the next five fiscal years are:

(\$ in millions)	Third Parties
2015	\$ 19.9
2016	17.6
2017	16.4
2018	14.4
2019	13.3
Thereafter	74.9

ACCOUNTING STANDARDS AND POLICIES

Accounting Standards and Policies Adopted During Fiscal 2014

(i) Employee Benefits

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income or loss and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The Company adopted and implemented the amendments to IAS 19 during its first quarter of fiscal 2014 and retrospective application was required. The impact from the adoption of the amendments to IAS 19 is summarized as follows:

Condensed Consolidated Statements of Earnings and Comprehensive Income Increase (Decrease)

(\$ in millions)	13 Weeks Ended May 4, 2013	52 Weeks Ended May 4, 2013
Selling and administrative expenses	\$ 0.4	\$ 0.9
Operating income	(0.4)	(0.9)
Finance costs, net	1.5	6.2
Earnings before income taxes	(1.9)	(7.1)
Income taxes	(0.4)	(1.8)
Net earnings	(1.5)	(5.3)
Other comprehensive income, net of taxes	1.2	4.7
Total comprehensive income	\$ (0.3)	\$ (0.6)

Condensed Consolidated Balance Sheets Increase (Decrease)

(\$ in millions)	As at May 4, 2013	As at May 5, 2012
Deferred tax assets	\$ 0.3	\$ 0.2
Other long-term liabilities	1.7	1.0
Retained earnings	(1.4)	(0.8)

The enhanced annual disclosures required for defined benefit plans are included in the Company's annual consolidated financial statements for the year ended May 3, 2014.

(ii) Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely. The standard became effective in the first quarter of fiscal 2014. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SEs. Adoption of this standard had no significant impact on the Company's financial results.

(iii) Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, the IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled. The standard became effective in the first quarter of fiscal 2014 and did not have a significant impact on the Company's financial statements.

(iv) Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard became effective in the first quarter of fiscal 2014 and resulted in additional disclosures in the Company's annual consolidated financial statements for the fiscal year ended May 3, 2014.

(v) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS became effective in the first quarter of fiscal 2014. The adoption of this standard had no measurement impact on the Company's financial results. Enhanced disclosures have been included in Notes 10 and 27 to the audited consolidated financial statements.

(vi) Presentation of Financial Statements

In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments became effective in the first quarter of fiscal 2014 and did not have a significant impact on the Company's financial results and disclosures.

Future Accounting Policies

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. The effective date for implementation of this standard has been deferred. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(ii) Financial Instruments: Asset and Liability Offsetting

In December 2011, the IASB amended IAS 32, "Financial Instruments: Presentation", to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014.

(iii) Levies

In May 2013, the IASB issued IFRIC 21, "Levies", which is an interpretation of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, "Income Taxes" and fines or other penalties imposed for breaches of legislation. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for the annual periods beginning on or after January 1, 2014.

(iv) 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 is effective for annual periods beginning on or after January 1, 2017.

The Company is currently evaluating the impact of these new standards, interpretations and amendments on its consolidated financial statements.

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with IFRS, 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 all interrelated. 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, valuation of asset-backed commercial paper, 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 that the Company may undertake in the future. Management regularly evaluates the estimates and assumptions it uses. Actual results could differ from these estimates.

Impairment of Non-Financial Assets

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. 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 fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company has primarily determined a cash generating unit to be 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 cash generating unit) is estimated to be less than its carrying amount, the carrying amount (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expenses immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or cash generating unit) 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 periods. A reversal of impairment loss is recognized immediately in net earnings or loss.

In the process of measuring expected future cash flows, management makes assumptions about the 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 assets within subsequent financial years.

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 the expected long-term rate of return on plan assets, 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.

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) inventories valued at retail and adjusted to cost; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) estimated inventory provisions associated with vendor allowances and internal charges. 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 earnings.

Inventory shrinkage, which is calculated as a percentage of the related inventory, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet dates. To the extent that actual losses experienced vary from those estimated, both inventories and operating income may be impacted.

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.

Disclosure Controls and Procedures

Management of Empire, which includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), 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 3, 2014, the CEO and CFO have evaluated the effectiveness of the Company's DC&P. Based on that evaluation, the CEO and CFO have concluded that the Company's DC&P was effective as at May 3, 2014 and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control over Financial Reporting

Management of Empire, which includes the CEO and CFO, 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 (1992)" published by the Committee of Sponsoring Organizations of the Treadway Commission. As at May 3, 2014, the CEO and CFO have evaluated the effectiveness of the Company's ICFR. Based on that evaluation, the CEO and CFO have concluded that the Company's ICFR was effective as at May 3, 2014 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 February 2, 2014 and ended May 3, 2014 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. At the end of the fourth quarter of fiscal 2014, the Company held a 41.6 percent ownership interest in Crombie REIT which is accounted for using the equity method. As a result of the issuance of Crombie REIT units and the conversion of Crombie REIT debentures during the current fiscal year, partially offset by the Company's subscription to Class B limited partnership units, the Company's interest in Crombie REIT was reduced from 42.8 percent at the end of fiscal 2013 to 41.6 percent. On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 39.3 percent.

The Company rents premises from Crombie REIT at amounts which, in management's opinion, approximate fair market value. Based upon the significant number of leases negotiated with third parties operating in the same markets in which the Company rents premises from Crombie REIT, management has determined the rental payments to Crombie REIT to be indicative of fair value. During the 52 weeks ended May 3, 2014, the aggregate net payments under these leases, which are measured at exchange amount, were \$110.5 million (52 weeks ended May 4, 2013 – \$80.6 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 52 weeks ended May 3, 2014, charges incurred for administrative and management services were \$0.6 million (52 weeks ended May 4, 2013 – \$1.0 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$1.7 million (May 4, 2013 – \$2.4 million) related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

The Company owns Crombie REIT Debentures with a market value of \$24.6 million (May 4, 2013 – \$24.8 million). During the 52 weeks ended May 3, 2014, the Company received income related to these securities of \$1.2 million (52 weeks ended May 4, 2013 – \$1.2 million).

On July 3, 2012, the Company purchased \$24.0 million of Debentures from Crombie REIT, pursuant to a \$60.0 million bought-deal prospectus offering. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00 percent per annum and each \$1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$20.10 per unit.

On September 25, 2012, the Company converted Series B convertible unsecured subordinated debentures of Crombie REIT with a face value of \$10.0 million into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of \$13.8 million, resulting in a pre-tax gain of \$3.8 million.

On December 14, 2012, Crombie REIT closed a bought-deal public offering of units at a price of \$14.75 per unit. Concurrent with the public offering, the Company subscribed for \$24.5 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

During the 52 weeks ended May 4, 2013, the Company sold eight properties to Crombie REIT, seven of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of \$106.0 million, resulting in a pre-tax gain of \$15.0 million, which was recognized in the consolidated statements of earnings.

During the quarter ended November 3, 2012, the Company acquired a parcel of land from Genstar Development Partnership, in which the Company holds a 40.7 percent interest. Cash consideration paid for the land was \$7.6 million. The gain realized of \$1.6 million was eliminated from property and equipment.

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT agreed to indirectly acquire 70 properties included in the Canada Safeway acquisition for \$991.3 million. The sale-leaseback transaction closed effective November 3, 2013 immediately following the close of the Canada Safeway acquisition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On closing of the acquisition of the 70 properties, the Company subscribed for \$150.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

During the quarter ended February 1, 2014, Crombie REIT purchased from the Company their interest in certain retention leases for cash consideration of \$1.5 million resulting in a pre-tax gain of \$0.4 million which was recognized in the consolidated statements of earnings.

During the fourth quarter of fiscal 2014, Sobeys entered into a loan agreement with Crombie REIT to partially finance Sobeys' acquisition of a property in British Columbia. The \$11.9 million loan bears interest at a rate of six percent and has no principal repayments until maturity on October 1, 2016. The Company also sold and leased back a property from Crombie REIT for cash consideration of \$10.2 million which was equal to its carrying value. In addition, the Company exchanged properties with Crombie REIT during the fourth quarter of fiscal 2014. The properties exchanged were both located in Canmore, Alberta.

SUBSEQUENT EVENTS

Subsequent to the end of the fourth quarter of fiscal 2014, Sobeys entered into an amortizing interest rate swap for a notional amount of \$598.7 million at a fixed interest rate of 1.4 percent effective May 12, 2014 to hedge the interest rate on a portion of its Acquisition Facility. The interest rate swap matures on December 31, 2015.

Sobeys also entered into seven EUR/CAD forward contracts subsequent to the close of the fourth quarter at an approximate Canadian dollar value of \$58.0 million. The forward contracts were entered into, to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in EUR. The forward contracts have maturities ranging from May 29, 2014 to September 1, 2016.

On May 30, 2014, Crombie REIT announced it had 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 limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently, the Company's interest in Crombie REIT will be reduced from 41.6 percent to 41.5 percent.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 52 weeks ended May 3, 2014, the Company contributed \$11.9 million to its registered defined benefit plans (52 weeks ended May 4, 2013 – \$9.6 million). The Company expects to contribute approximately \$8.6 million in fiscal 2015 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

DESIGNATION FOR ELIGIBLE DIVIDENDS

"Eligible dividends" receive favourable treatment for income tax purposes. To be 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.

CONTINGENCIES

There are various claims and litigation, which the Company is involved with, 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 senior management 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 800 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 impacts 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, and to be focused on superior execution and to 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. 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.

Food 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. 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 inventory 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

The Company is exposed to the risk of labour disruption in its operations and, with the Canada Safeway acquisition, this level of risk has increased appreciably given that Safeway operations are almost entirely unionized. The Company has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2015. However, the Company has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long-term. Any prolonged 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 which are reviewed annually by the Human Resources Committee.

Operations

The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchise affiliates operate approximately 46 percent of Sobeys' retail stores. Sobeys relies on the franchise affiliates and corporate store management to successfully execute retail strategies and programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

To maintain controls over Sobeys' brands and the quality and range of products and services offered at its stores, each franchisee affiliate agrees 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 agreements which expire at various times for individual franchisees. Despite these franchise agreements, Sobeys may have limited ability to control a franchisee's business operations. A breach of the franchise agreement or operational failures by a significant number of franchisees may adversely affect Sobeys' reputation and financial performance.

Technology

Sobeys operates an extensive complex information technology system that is 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 and external resources 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 and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches and/or inappropriate disclosure or leaks of sensitive information. In addition, 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.

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. 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 or operations.

Supply Chain

Sobeys is exposed to potential supply chain disruptions that could result in shortages 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 may be at risk of cost inflation given rising commodity prices and other costs of production to food manufacturers. Should rising cost of product materialize in excess of expectations and should Sobeys not be able to offset such cost inflation through higher retail prices and/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 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 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 or hedged with interest rate swaps. Any increase in the applicable interest rates could increase expense and have a material adverse effect on the Company's cash flow and results of operations. The Company has historically managed interest rate risk by hedging with interest rate swaps. There can be no assurance that any hedging or other risk management strategy, 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 as part of an independent audit and security function the Company maintains a whistle-blowing hotline. There can be no assurance that these measures will be effective to prevent violations of law or ethical business practices.

Environmental, Health and Safety

The Company operates its business locations across the country, including multiple 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/or the ability to expand existing stores is 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. 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 rating assigned to Sobeys or the Notes 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 rating 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 ("EUR") and the USD. USD purchases of products represent approximately 3.6 percent of Sobeys' total annual purchases with EUR purchases 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 small number of produce brokerage operations and residential real estate partnerships based in the United States.

Drug Regulation

Legislated changes to generic prescription drug prices continued to impact Sobeys in fiscal 2014. On January 18, 2013, it was announced that in all provinces, with the exception of Québec, the reimbursement rate for the top six generic prescription drugs would be significantly reduced as of April 1, 2013 impacting fiscal 2013 and onward. It was further announced that as of April 1, 2014, the reimbursement rate on four additional high volume generic prescription drugs would be significantly reduced. Other amendments, the impacts of which vary province by province, continue to be announced. Sobeys will continue to identify opportunities to mitigate the negative impact on financial performance resulting from these changes.

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.

As a result of the Canada Safeway acquisition, the Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 17.0 percent of employees of Sobeys and its independent franchisees participate in these plans. Sobeys' responsibility to make contributions to these plans is limited by the amounts established in the collective bargaining agreements, however, poor performance of these plans could have a negative effect on Sobeys' 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 acquisition could have adverse consequences for the Company, including limiting the Company's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; restricting the Company's flexibility and discretion to operate its business; limiting the Company's ability to declare dividends on its Class A Shares; having to dedicate a portion of the Company's cash flows from operations to the payment of interest on its existing indebtedness and not having such cash flows available for other purposes, including operations, capital expenditures and future business opportunities; exposing the Company to increased interest expense on borrowings at variable rates; limiting the Company's ability to adjust to changing market conditions; placing the Company at a competitive disadvantage compared to its competitors that have less debt; making the Company vulnerable in a downturn in general economic conditions; and making the Company unable to make capital expenditures that are important to its growth and strategies.

Transitional Risk

Safeway US has agreed to provide certain information technology, produce procurement services and continued use of certain services from contracts for an initial period of 18 months from the Canada Safeway acquisition closing, which may be extended for up to three additional months at Sobeys' election. There can be no assurance that third party contracts that are shared between Safeway US and Canada Safeway can be replaced on similar terms or that Safeway US will fulfill its obligations under this agreement in a manner that allows Sobeys to maintain the operations of the Canada Safeway Business and facilitates the efficient and effective transition of business operations, or at all. Further, there can be no assurance that the transition process will be completed within 21 months.

Integration of the Combined Business

Sobeys' ability to maintain and successfully execute its business depends upon the judgment and project execution skills of its senior management. Any management disruption or difficulties in integrating Sobeys' and Canada Safeway's management and operations staff could significantly affect Sobeys' business and results of operations. The success of the Canada Safeway acquisition will depend, in large part, on the ability of management to realize the anticipated benefits and cost synergies from integration of the businesses of Sobeys and Canada Safeway. The integration of Sobeys and Canada Safeway may result in significant challenges, and management may be unable to accomplish the integration smoothly, or successfully, in a timely manner or without spending significant amounts of money. It is possible that the integration process could result in the loss of key employees, the 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 clients, suppliers, employees or to achieve the anticipated benefits of the Canada Safeway acquisition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The integration of Canada Safeway 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 integrate the operations of each of the businesses successfully or achieve any of the synergies or other benefits that are 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 Sobeys and Canada Safeway, including, but not limited to, information technology and financial reporting systems, could have a material adverse effect on the business, financial condition and results of operations of Sobeys.

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.

Dated: June 26, 2014
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) "Marc Poulin"

Marc Poulin

President and
Chief Executive Officer

June 26, 2014

(signed) "François Vimard"

François Vimard

Chief Financial Officer

June 26, 2014

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 sheets as at May 3, 2014 and May 4, 2013 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the 52 week fiscal years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 audits. We conducted our audits 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 in our audits 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 consolidated financial position of Empire Company Limited as at May 3, 2014 and May 4, 2013, and its consolidated financial performance and its consolidated cash flows for the 52 week fiscal years then ended, in accordance with International Financial Reporting Standards.

(signed) "Grant Thornton LLP"

Chartered Accountants

Halifax, Canada
June 26, 2014

CONSOLIDATED BALANCE SHEETS

As at (in millions of Canadian dollars)	May 3, 2014	May 4, 2013 ⁽¹⁾
Assets		
Current		
Cash and cash equivalents	\$ 429.3	\$ 455.2
Receivables	460.5	381.7
Inventories (Note 4)	1,310.2	900.8
Prepaid expenses	114.3	86.2
Loans and other receivables (Note 5)	46.4	66.2
Investments	–	14.5
Income taxes receivable	39.7	33.8
Assets held for sale (Note 6 and 23)	204.8	22.0
	2,605.2	1,960.4
Loans and other receivables (Note 5)	52.5	53.8
Investments	24.8	25.0
Investments, at equity (Note 7)	554.2	407.6
Other assets (Note 8)	30.3	50.5
Property and equipment (Note 9)	3,650.7	2,703.0
Investment property (Note 10)	104.5	96.9
Intangibles (Note 11)	950.8	490.5
Goodwill (Note 12)	4,134.0	1,310.4
Deferred tax assets (Note 13)	131.0	42.3
	\$ 12,238.0	\$ 7,140.4
Liabilities		
Current		
Bank indebtedness (Note 14)	\$ –	\$ 6.0
Accounts payable and accrued liabilities	2,246.0	1,765.8
Income taxes payable	21.0	75.2
Provisions (Note 15)	82.4	30.6
Long-term debt due within one year (Note 16)	218.0	47.6
	2,567.4	1,925.2
Provisions (Note 15)	140.7	52.9
Long-term debt (Note 16)	3,279.9	915.9
Other long-term liabilities (Note 17)	389.2	309.7
Deferred tax liabilities (Note 13)	119.3	180.6
	6,496.5	3,384.3
Shareholders' Equity		
Capital stock (Note 19)	2,108.6	319.3
Contributed surplus	5.0	6.7
Retained earnings	3,585.9	3,406.9
Accumulated other comprehensive income (loss)	1.0	(8.1)
	5,700.5	3,724.8
Non-controlling interest	41.0	31.3
	5,741.5	3,756.1
	\$ 12,238.0	\$ 7,140.4

See accompanying notes to the consolidated financial statements.

(1) Certain fiscal 2013 amounts have been restated (see Note 3(aa)(i)).

On Behalf of the Board

(signed) "Rob Dexter"

Rob Dexter
Director

(signed) "Marc Poulin"

Marc Poulin
Director

CONSOLIDATED STATEMENTS OF EARNINGS

52 Weeks Ended (in millions of Canadian dollars, except per share amounts)	May 3, 2014	May 4, 2013 ⁽¹⁾
Sales	\$ 20,993.0	\$ 17,400.8
Other income (Note 20)	14.1	54.2
Share of earnings from investments, at equity (Note 7)	50.2	44.0
Operating expenses		
Cost of sales	15,941.3	13,326.3
Selling and administrative expenses	4,787.5	3,599.5
Operating income	328.5	573.2
Finance costs, net (Note 22)	133.2	55.4
Earnings before income taxes	195.3	517.8
Income taxes (Note 13)	36.3	136.4
Net earnings from continuing operations	159.0	381.4
Net earnings from discontinued operations (Note 23)	84.4	7.2
Net earnings	\$ 243.4	\$ 388.6
Earnings for the year attributable to:		
Non-controlling interest	\$ 8.0	\$ 9.1
Owners of the parent		
From continuing operations	151.0	372.3
From discontinued operations	84.4	7.2
	\$ 243.4	\$ 388.6
Earnings per share from continuing and discontinued operations (Note 24)		
Basic		
From continuing operations	\$ 1.89	\$ 5.48
From discontinued operations	1.05	0.11
Total	\$ 2.94	\$ 5.59
Diluted		
From continuing operations	\$ 1.88	\$ 5.47
From discontinued operations	1.05	0.11
Total	\$ 2.93	\$ 5.58
Weighted average number of common shares outstanding, in millions (Note 24)		
Basic	80.0	67.9
Diluted	80.2	68.1

See accompanying notes to the consolidated financial statements.

(1) Certain fiscal 2013 amounts have been restated (see Note 3(aa)(i) and 23).

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

52 Weeks Ended (in millions of Canadian dollars)	May 3, 2014	May 4, 2013 ⁽¹⁾
Net earnings	\$ 243.4	\$ 388.6
Other comprehensive income		
Items that will be reclassified subsequently to net earnings		
Unrealized gains on derivatives designated as cash flow hedges (net of income taxes of \$(0.3) (2013 - \$(0.3)))	0.6	0.5
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings (net of income taxes of \$ nil (2013 - \$(0.5)))	–	1.2
Unrealized (losses) gains on available for sale financial assets (net of income taxes of \$ nil (2013 - \$(0.3)))	(0.2)	1.3
Reclassification of gains on available for sale financial assets to earnings (net of income taxes of \$ nil (2013 - \$0.6))	–	(3.0)
Share of other comprehensive income of investments, at equity (net of income taxes of \$ nil (2013 - \$(0.7)))	2.7	1.7
Exchange differences on translation of foreign operations	6.0	1.0
Items that will not be reclassified subsequently to net earnings		
Actuarial gains on defined benefit plans (net of income taxes of \$(11.4) (2013 - \$(3.5)))	29.9	11.7
Total comprehensive income	\$ 282.4	\$ 403.0
Total comprehensive income for the year attributable to:		
Non-controlling interest	\$ 8.0	\$ 9.1
Owners of the parent	274.4	393.9
	\$ 282.4	\$ 403.0
Total comprehensive income attributable to owners of the parent arises from:		
Continuing operations	\$ 190.0	\$ 386.7
Discontinued operations (Note 23)	84.4	7.2
	\$ 274.4	\$ 393.9

See accompanying notes to the consolidated financial statements.

(1) Certain fiscal 2013 amounts have been restated (see Note 3(aa)(i) and 23).

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars)	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Attributable to Parent	Non-controlling Interest	Total Equity
Balance at May 5, 2012⁽¹⁾	\$ 319.3	\$ 6.1	\$ (10.8)	\$ 3,080.9	\$ 3,395.5	\$ 35.1	\$ 3,430.6
Dividends declared							
on common shares	–	–	–	(65.2)	(65.2)	–	(65.2)
Employee share options	–	0.6	–	–	0.6	–	0.6
Capital transactions							
with structured entities	–	–	–	–	–	(12.9)	(12.9)
Transactions with owners	–	0.6	–	(65.2)	(64.6)	(12.9)	(77.5)
Net earnings	–	–	–	379.5	379.5	9.1	388.6
Other comprehensive income							
Unrealized gains on derivatives designated as cash flow hedges	–	–	0.5	–	0.5	–	0.5
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	–	–	1.2	–	1.2	–	1.2
Unrealized gains on available for sale financial assets	–	–	1.3	–	1.3	–	1.3
Reclassification of gains on available for sale financial assets to earnings	–	–	(3.0)	–	(3.0)	–	(3.0)
Actuarial gains on defined benefit plans	–	–	–	11.7	11.7	–	11.7
Share of other comprehensive income of investments, at equity	–	–	1.7	–	1.7	–	1.7
Exchange differences on translation of foreign operations	–	–	1.0	–	1.0	–	1.0
Total comprehensive income for the year	–	–	2.7	391.2	393.9	9.1	403.0
Balance at May 4, 2013⁽¹⁾	\$ 319.3	\$ 6.7	\$ (8.1)	\$ 3,406.9	\$ 3,724.8	\$ 31.3	\$ 3,756.1
Dividends declared on common shares	–	–	–	(83.3)	(83.3)	–	(83.3)
Employee share options	2.2	(1.7)	–	(3.0)	(2.5)	–	(2.5)
Capital transactions							
with structured entities	–	–	–	–	–	1.7	1.7
Issuance of common shares (Note 19)	1,787.1	–	–	–	1,787.1	–	1,787.1
Transactions with owners	1,789.3	(1.7)	–	(86.3)	1,701.3	1.7	1,703.0
Net earnings	–	–	–	235.4	235.4	8.0	243.4
Other comprehensive income							
Unrealized gains on derivatives designated as cash flow hedges	–	–	0.6	–	0.6	–	0.6
Unrealized losses on available for sale financial assets	–	–	(0.2)	–	(0.2)	–	(0.2)
Actuarial gains on defined benefit plans	–	–	–	29.9	29.9	–	29.9
Share of other comprehensive income of investments, at equity	–	–	2.7	–	2.7	–	2.7
Exchange differences on translation of foreign operations	–	–	6.0	–	6.0	–	6.0
Total comprehensive income for the year	–	–	9.1	265.3	274.4	8.0	282.4
Balance at May 3, 2014	\$ 2,108.6	\$ 5.0	\$ 1.0	\$ 3,585.9	\$ 5,700.5	\$ 41.0	\$ 5,741.5

See accompanying notes to the consolidated financial statements.

(1) Certain fiscal 2013 amounts have been restated (see Note 3(aa)(i)).

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 Weeks Ended (in millions of Canadian dollars)	May 3, 2014	May 4, 2013 ⁽¹⁾
Operations		
Net earnings	\$ 243.4	\$ 388.6
Adjustments for:		
Restructuring	169.8	–
Depreciation	362.5	314.8
Income taxes	49.6	138.3
Finance costs, net (Note 22 and 23)	134.0	57.0
Amortization of intangibles	68.1	44.5
Gain on disposal of assets (Note 20 and 23)	(137.5)	(47.2)
Impairment (reversal) of non-financial assets (Note 9, 10, 11 and 12)	(7.0)	6.9
Amortization of deferred items	7.1	0.9
Equity in earnings of other entities, net of dividends received	27.5	37.8
Employee future benefits obligation	2.9	2.7
Increase in long-term lease obligation	1.2	4.2
Decrease in long-term provisions	(0.6)	(8.0)
Stock-based compensation	4.8	0.6
Losses recognized on re-measurement of assets and restructuring costs of discontinued operations (Note 23)	34.8	–
Net change in non-cash working capital	38.4	(73.6)
Income taxes paid, net	(211.6)	(86.5)
Cash flows from operating activities	787.4	781.0
Investment		
Net increase in investments	(151.6)	(150.4)
Property, equipment and investment property purchases	(571.4)	(531.9)
Proceeds on disposal of property, equipment and investment property	1,644.4	181.1
Additions to intangibles	(18.5)	(12.3)
Loans and other receivables	21.2	(19.1)
Other assets and other long-term liabilities	1.1	12.2
Proceeds on sale of asset-backed commercial paper	26.0	–
Business acquisitions (Note 25)	(5,825.0)	(17.9)
Interest received	4.4	3.0
Non-controlling interest	1.7	(12.9)
Cash flows used in investing activities	(4,867.7)	(548.2)
Financing		
(Decrease) increase in bank indebtedness	(6.0)	1.6
Issue of long-term debt	3,337.6	133.7
Deferred debt financing costs	(50.6)	–
Repayment of long-term debt	(798.6)	(303.0)
Stock option purchases	(9.1)	–
Interest paid	(102.3)	(54.9)
Issue of Non-voting Class A shares, net (Note 19)	1,842.6	–
Share issue costs	(75.9)	–
Dividends paid, common shares	(83.3)	(65.2)
Cash flows from (used in) financing activities	4,054.4	(287.8)
Decrease in cash and cash equivalents	(25.9)	(55.0)
Cash and cash equivalents, beginning of year	455.2	510.2
Cash and cash equivalents, end of year	\$ 429.3	\$ 455.2

See accompanying notes to the consolidated financial statements.

(1) Certain fiscal 2013 amounts have been restated (see Note 3(aa)(i) and 23).

Notes to the Consolidated Financial Statements

May 3, 2014 (in millions of Canadian dollars, except per share amounts)

1. REPORTING ENTITY

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company whose key businesses include food retailing and corporate investment activities. 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 year ended May 3, 2014 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence are accounted for using the equity method. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

2. BASIS OF PREPARATION

Statement of compliance

The 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 26, 2014.

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: derivative financial instruments, financial instruments classified as fair value through profit and loss ("FVTPL"), financial instruments classified as available for sale, and stock based compensation plans.

Use of estimates and judgments

The preparation of 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 all interrelated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 and intangible assets, the recognition and measurement of assets acquired and liabilities assumed, and the recognition of provisions.

The Company's investments in associates are accounted for using the equity accounting method. In assessing the potential impact of IFRS 10 which became effective during the first quarter of 2014 (Note 3(aa)(ii)), management used significant judgment in determining whether the Company has power over each of its investments contained in investments in associates and its ability to use its power over the investees. The criteria for determining whether an investee should be accounted for using the consolidation or equity accounting method are whether the investor possesses power over the investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns.

Estimates 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 that 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) inventories valued at retail and adjusted to cost; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) estimated inventory provisions associated with vendor allowances and internal charges.

(b) Impairment

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 cash-generating unit 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.

(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 18.

(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, and to calculate the proforma results as if the business acquisitions had occurred at the beginning of the Company's fiscal year. 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.

(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.

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 which the Company controls. All subsidiaries have a reporting date within five 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. 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.

Current income tax assets and liabilities are comprised of obligations to, or claims from, 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 (such as the unrealized gains and losses on cash flow hedges) or directly in equity.

(g) Assets held for sale

Certain property and equipment, inventory, and intangible assets 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 cost of disposal. Liabilities assumed upon sale of assets or debts to be repaid as part of a sale transaction are also classified as liabilities relating to assets held for sale.

(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. 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 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 flow's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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) 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: a) FVTPL – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) FVTPL – measured at fair value with changes in fair value recorded in net earnings, and b) other liabilities – measured at amortized cost with gains and losses recognized in net earnings 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 – Current	FVTPL	Fair value
Investments	Available for sale	Fair value
Derivative financial liabilities	FVTPL	Fair value
Non-derivative other assets	FVTPL	Fair value
Bank indebtedness	Other liabilities	Amortized cost
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 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.

(j) Hedges

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and variable interest rates. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. 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 relating to the hedge is carried forward until the hedged item is recognized in net earnings. 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 is immediately reclassified to net earnings.

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 are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings 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 are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.

(k) 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 held under 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.

Depreciation on real estate buildings is calculated using the straight-line method with reference to each property's carrying value, its estimated useful life (not exceeding 40 years), and its residual value. Deferred leasing costs are amortized over the terms of the related leases.

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 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 income. 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.

(l) 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 sales and selling and administrative expenses, respectively, in the consolidated statements of earnings.

(m) 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.

(n) 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 earnings. Included in intangibles are brand names, loyalty programs, and private labels, the majority of which have indefinite useful lives. Subsequent expenditures made by the Company relating to intangible assets that do not meet the capitalization criteria are expensed in the period incurred.

(o) 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.

(p) Impairment of non-financial assets

Goodwill and intangibles with indefinite useful lives are reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill or the indefinite life intangible relates. The recoverable amount is the higher of fair value less costs of disposal and value in use. When the recoverable amount of the cash generating units is less than the carrying amount, an impairment loss is recognized immediately as selling and administrative expenses. 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 fair value less costs of disposal and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company has primarily determined a cash generating unit to be an individual store or theatre. Corporate assets such as head offices and distribution centres do not individually generate separate cash inflows and are therefore aggregated for testing with the locations they service. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expenses immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or cash generating unit) 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.

In the process of measuring expected 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 assets in the subsequent financial years.

(q) Customer loyalty programs

The Company utilizes loyalty card programs (the "Programs") which allow members to earn points on their purchases in certain Sobeys retail stores. Members can redeem these points, in accordance with the Program rewards schedule, for discounts on future grocery purchases, purchase products or services, or elect to convert the points into Aeroplan miles which is a loyalty program run by a third party. The fair value of loyalty points awarded is accounted for as a separate element of the sales transaction and recognition of revenue is deferred until the awards are redeemed after adjustment for the number of points expected never to be redeemed based on the expected future activity. Fair value is determined by reference to the value for which the points can be redeemed. The deferred revenue relating to the Programs is included in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

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

(r) 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 in the consolidated statements of earnings.

(s) Borrowing costs

Borrowing costs primarily comprise 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.

(t) 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.

(u) 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 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.

(v) Revenue recognition

Sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores and theatres 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.

(w) 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.

(x) 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.

(y) 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.

(z) 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 29).

(aa) Accounting standards and policies adopted during fiscal 2014

(i) Employee benefits

In June 2011, the IASB issued amendments to IAS 19, which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income or loss and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The Company adopted and implemented the amendments to IAS 19 during its first quarter of fiscal 2014 and retrospective application was required. The impact from the adoption of the amendments to IAS 19 is summarized as follows:

*Consolidated Statements of Earnings and Comprehensive Income
Increase (Decrease)*

	May 4, 2013 (52 Weeks Ended)
Selling and administrative expenses	\$ 0.9
Operating income	(0.9)
Finance costs, net	6.2
Earnings before income taxes	(7.1)
Income taxes	(1.8)
Net earnings	(5.3)
Other comprehensive income, net of taxes	4.7
Total comprehensive income	\$ (0.6)

*Consolidated Balance Sheets
Increase (Decrease)*

	As at May 4, 2013	As at May 5, 2012
Deferred tax assets	\$ 0.3	\$ 0.2
Other long-term liabilities	1.7	1.0
Retained earnings	(1.4)	(0.8)

Enhanced annual disclosures required for defined benefit plans have been included in Note 18 to these consolidated financial statements.

(ii) Consolidated financial statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely. The standard became effective in the first quarter of 2014. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SEs. Adoption of this standard had no significant impact on the Company's financial results.

(iii) Joint arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, the IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled. The standard became effective in the first quarter of 2014 and did not have a significant impact on the Company's financial statements.

(iv) Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard became effective in the first quarter of 2014 and additional disclosures have been included in Notes 7 and 26 to these consolidated financial statements.

(v) Fair value measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This standard became effective in the first quarter of 2014. The adoption of this standard had no measurement impact on the Company's financial results. Enhanced disclosures have been included in Notes 10 and 27 to these consolidated financial statements.

(vi) Presentation of financial statements

In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments became effective in the first quarter of 2014 and did not have a significant impact on the Company's financial results and disclosures.

(bb) Future accounting policies**(i) Financial instruments**

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. The effective date for implementation of this standard has been deferred. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(ii) Financial instruments: asset and liability offsetting

In December 2011, the IASB amended IAS 32, "Financial Instruments: Presentation", to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014.

(iii) Levies

In May 2013, the IASB issued IFRIC 21, "Levies", which is an interpretation of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, "Income Taxes" and fines or other penalties imposed for breaches of legislation. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

(iv) 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 is effective for annual periods beginning on or after January 1, 2017.

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

4. INVENTORIES

The cost of inventories (including those from discontinued operations) recognized as an expense during the year was \$15,956.4 (2013 – \$13,350.1). The Company has recorded during the year \$10.1 (2013 – \$8.6) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 3, 2014. There were no reversals of inventories written down previously (2013 – \$ nil).

5. LOANS AND OTHER RECEIVABLES

	May 3, 2014	May 4, 2013
Loans receivable	\$ 61.8	\$ 60.3
Notes receivable and other	37.1	59.7
	98.9	120.0
Less amount due within one year	46.4	66.2
	\$ 52.5	\$ 53.8

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.

Loans receivable from officers and employees of \$1.4 (2013 – \$2.6) 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 53,002 (2013 – 96,489) Non-Voting Class A shares. The market value of the shares at May 3, 2014 was \$3.6 (2013 – \$6.6).

6. ASSETS HELD FOR SALE

As a condition of the regulatory clearance from the Competition Bureau for Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway ULC (the "Canada Safeway acquisition"), the Company was required to divest 23 retail stores. On February 13, 2014, Sobeys announced that it entered into binding purchase agreements with Overwaitea Food Group LP and Federated Co-operatives Limited to purchase 22 of the 23 retail stores that were required to be divested as a result of the Canada Safeway acquisition. In addition to the required divestitures, the Company agreed to sell an additional seven stores in British Columbia comprised of both Safeway and Sobeys locations. Sobeys also signed a binding purchase agreement with another retailer for the sale of one retail store which was also required to be divested as part of the Canada Safeway acquisition. The purchase agreements all received approval from the Competition Bureau.

During the fourth quarter, the Company divested 19 of the retail stores for cash proceeds of \$337.7. The assets and liabilities of \$112.2 for the remaining 11 retail stores have been included in assets held for sale as of May 3, 2014, and are expected to be divested during the Company's first quarter of fiscal 2015. All proceeds will be used to repay bank borrowings.

7. INVESTMENTS, AT EQUITY

The carrying values of the investments, at equity are as follows:

	May 3, 2014	May 4, 2013
Investment in associates		
Crombie Real Estate Investment Trust ("Crombie REIT")	\$ 333.5	\$ 195.2
Canadian real estate partnerships	143.7	136.0
U.S. real estate partnerships	67.3	67.2
Investment in joint ventures		
Canadian Digital Cinema Partnership	9.7	9.2
Total	\$ 554.2	\$ 407.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	May 3, 2014	May 4, 2013
Crombie REIT	\$ 682.9	\$ 622.7

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

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

	May 3, 2014	May 4, 2013
Balance, beginning of year	\$ 195.2	\$ 167.4
Equity earnings	19.2	13.7
Share of comprehensive income	2.5	2.4
Distributions	(38.5)	(33.4)
Deferral of gains on sale of property	(0.3)	(11.4)
Reversal of deferred gain on sale of property to unrelated party	1.1	–
Interest acquired in Crombie REIT	150.0	38.3
Dilution gain (Note 20)	4.3	18.2
Balance, end of year	\$ 333.5	\$ 195.2

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

	May 3, 2014	May 4, 2013
Balance, beginning of year	\$ 136.0	\$ 99.7
Equity earnings	22.0	23.5
Distributions	(22.4)	(34.6)
Investment	13.7	45.8
Deferral of gains on sale of property to Sobeys	–	1.6
Remeasurement of deferred tax attributes	(5.6)	–
Balance, end of year	\$ 143.7	\$ 136.0

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

	May 3, 2014	May 4, 2013
Balance, beginning of year	\$ 67.2	\$ 39.1
Equity earnings	8.4	6.1
Distributions	(16.5)	(13.8)
Foreign currency translation adjustment	6.0	1.0
Investment	2.2	34.8
Balance, end of year	\$ 67.3	\$ 67.2

The Company's carrying value of its investment in Canadian Digital Cinema Partnership is as follows:

	May 3, 2014	May 4, 2013
Balance, beginning of year	\$ 9.2	\$ 7.2
Equity earnings	0.6	0.7
Distributions	(0.3)	–
Share of comprehensive income	–	(0.1)
Investment	0.2	1.4
Balance, end of year	\$ 9.7	\$ 9.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company owns 50,241,245 Class B units and attached special voting units of Crombie REIT, along with 909,090 REIT units, representing a 41.6% economic and voting interest in Crombie.

The following amounts represent the revenues, expenses, assets, and liabilities of Crombie REIT as of and for the 12 months ended March 31, 2014, as well as a reconciliation of the carrying amount of the Company's investment in Crombie REIT to Unitholders equity of Crombie.

	March 31, 2014	March 31, 2013
Revenues	\$ 316.9	\$ 267.6
Expenses	280.3	227.6
Earnings before income taxes	\$ 36.6	\$ 40.0
Loss from continuing operations	\$ (58.5)	\$ (38.4)
OCI	3.8	5.2
Total comprehensive income	\$ (54.7)	\$ (33.2)
	March 31, 2014	March 31, 2013
Assets		
Current	\$ 73.8	\$ 30.0
Non-current	3,271.1	2,268.1
	\$ 3,344.9	\$ 2,298.1
Liabilities		
Current	\$ 211.4	\$ 184.8
Non-current	2,019.3	1,335.1
	\$ 2,230.7	\$ 1,519.9
Unitholder's equity		
REIT Units	\$ 675.1	\$ 469.3
Class B LP Units	439.1	308.9
	1,114.2	778.2
Less REIT Units	(675.1)	(469.3)
Cumulative changes since acquisition of Crombie REIT		
Variance in timing of distributions	3.6	2.8
Issue costs related to Class B units	12.3	12.2
Deferred gains (net of depreciation addback)	(174.0)	(176.6)
Dilution gains	38.5	34.2
Write off of portion of AOCI on dilution of interest in Crombie	0.7	–
Carrying amount attributable to investment in Class B Units	320.2	181.5
REIT Units owned by Empire Company	13.8	13.8
Cumulative equity earnings on REIT Units	0.6	0.2
Cumulative distributions on REIT Units	(1.1)	(0.3)
Carrying amount of investment in Crombie REIT	\$ 333.5	\$ 195.2
	March 31, 2014	March 31, 2013
Cash flows		
Operating cash flows	\$ 29.5	\$ 41.5
Investing cash flows	\$ (1,092.3)	\$ (479.7)
Financing cash flows	\$ 1,063.5	\$ 355.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 of and for the 12 months ended March 31, 2014.

	March 31, 2014	March 31, 2013
Revenues	\$ 112.5	\$ 105.9
Expenses	55.0	40.9
Earnings before income taxes	\$ 57.5	\$ 65.0

	March 31, 2014	March 31, 2013
Assets		
Current	\$ 325.5	\$ 317.6
Liabilities		
Current	\$ 24.8	\$ 25.0
Non-current	10.0	17.4
	\$ 34.8	\$ 42.4
Net assets	\$ 290.7	\$ 275.2
Carrying amount of investment	\$ 143.7	\$ 136.0

	March 31, 2014	March 31, 2013
Cash flows		
Operating cash flows	\$ 37.3	\$ (41.9)
Investing cash flows	\$ 15.5	\$ 2.1
Financing cash flows	\$ (49.3)	\$ 21.4

The Company has interests in various US real estate partnerships ranging from 42.1% to 45.8% which are involved in residential property developments in the United States.

The following amounts represent the revenues, expenses, assets, and liabilities of the US real estate partnerships as of and for the 12 months ended March 31, 2014.

	March 31, 2014	March 31, 2013
Revenues	\$ 78.1	\$ 77.2
Expenses	58.6	63.3
Earnings before income taxes	\$ 19.5	\$ 13.9

	March 31, 2014	March 31, 2013
Assets		
Current	\$ 178.4	\$ 159.8
Liabilities		
Current	\$ 14.6	\$ 13.5
Net assets	\$ 163.8	\$ 146.3
Carrying amount of investment	\$ 67.3	\$ 67.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Cash flows	March 31, 2014	March 31, 2013
Operating cash flows	\$ 15.5	\$ (1.3)
Investing cash flows	\$ (2.2)	\$ (22.5)
Financing cash flows	\$ (15.9)	\$ 35.1

Additional information regarding the Company's activities with its various associates is contained in Notes 15, 26, 30 and 32.

8. OTHER ASSETS

	May 3, 2014	May 4, 2013
Asset-backed commercial paper	\$ –	\$ 24.8
Restricted cash	6.3	2.1
Deferred lease assets	10.3	11.0
Other	13.7	12.6
Total	\$ 30.3	\$ 50.5

9. PROPERTY AND EQUIPMENT

May 3, 2014	Food Retailing Segment					Total
	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	
Cost						
Opening balance	\$ 420.8	\$ 1,033.2	\$ 2,189.4	\$ 486.9	\$ 192.3	\$ 4,322.6
Additions	31.4	38.0	159.3	44.1	311.5	584.3
Additions from business acquisitions	253.2	481.0	221.0	137.6	11.5	1,104.3
Transfers	(23.3)	43.4	54.2	14.6	(277.4)	(188.5)
Disposals and write downs	(14.5)	(31.5)	(61.4)	(13.3)	(1.2)	(121.9)
Closing balance	\$ 667.6	\$ 1,564.1	\$ 2,562.5	\$ 669.9	\$ 236.7	\$ 5,700.8
Accumulated depreciation and impairment losses						
Opening balance	\$ –	\$ 301.6	\$ 1,203.9	\$ 248.2	\$ –	\$ 1,753.7
Disposals and write downs	–	(2.4)	(24.9)	4.9	–	(22.4)
Transfers	–	(1.6)	(14.5)	(4.7)	–	(20.8)
Depreciation	–	58.5	240.2	59.4	–	358.1
Impairment losses	–	–	3.7	0.9	–	4.6
Impairment reversals	–	(0.1)	(5.5)	(5.6)	–	(11.2)
Closing balance	\$ –	\$ 356.0	\$ 1,402.9	\$ 303.1	\$ –	\$ 2,062.0
Net carrying value as at May 3, 2014	\$ 667.6	\$ 1,208.1	\$ 1,159.6	\$ 366.8	\$ 236.7	\$ 3,638.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 3, 2014	Investments and Other Operations Segment						Total
	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Petroleum and Natural Gas	
Cost							
Opening balance	\$ 2.6	\$ 42.5	\$ 104.4	\$ 124.6	\$ 3.5	\$ –	\$ 277.6
Additions	–	–	2.0	1.8	12.8	–	16.6
Additions from business acquisitions	–	–	–	–	–	–	–
Transfers	(1.5)	(6.2)	(2.9)	(2.0)	(16.3)	–	(28.9)
Disposals and write downs	(0.8)	(25.5)	(89.6)	(124.4)	–	–	(240.3)
Closing balance	\$ 0.3	\$ 10.8	\$ 13.9	\$ –	\$ –	\$ –	\$ 25.0
Accumulated depreciation and impairment losses							
Opening balance	\$ –	\$ 23.8	\$ 69.0	\$ 50.7	\$ –	\$ –	\$ 143.5
Disposals and write downs	–	(17.3)	(62.8)	(59.7)	–	–	(139.8)
Transfers	–	(2.6)	(2.6)	(2.0)	–	–	(7.2)
Depreciation	–	0.6	1.5	1.5	–	–	3.6
Impairment losses	–	0.5	5.3	15.8	–	–	21.6
Impairment reversals	–	–	(2.3)	(6.3)	–	–	(8.6)
Closing balance	\$ –	\$ 5.0	\$ 8.1	\$ –	\$ –	\$ –	\$ 13.1
Net carrying value as at May 3, 2014	\$ 0.3	\$ 5.8	\$ 5.8	\$ –	\$ –	\$ –	\$ 11.9

May 4, 2013	Food Retailing Segment						Total
	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction		
Cost							
Opening balance	\$ 402.9	\$ 972.9	\$ 2,006.0	\$ 458.1	\$ 342.0	\$ –	\$ 4,181.9
Additions	49.1	43.6	136.4	32.5	231.8	–	493.4
Additions from business acquisitions	2.1	2.1	0.4	–	–	–	4.6
Transfers	(10.9)	54.6	203.6	27.4	(355.5)	–	(80.8)
Disposals and write downs	(22.4)	(40.0)	(157.0)	(31.1)	(26.0)	–	(276.5)
Closing balance	\$ 420.8	\$ 1,033.2	\$ 2,189.4	\$ 486.9	\$ 192.3	\$ –	\$ 4,322.6
Accumulated depreciation and impairment losses							
Opening balance	\$ –	\$ 280.8	\$ 1,145.6	\$ 228.4	\$ –	\$ –	\$ 1,654.8
Disposals and write downs	–	(16.0)	(156.4)	(29.3)	–	–	(201.7)
Transfers	–	(3.1)	–	–	–	–	(3.1)
Depreciation	–	40.9	210.9	48.2	–	–	300.0
Impairment losses	–	0.2	4.7	1.6	–	–	6.5
Impairment reversals	–	(1.2)	(0.9)	(0.7)	–	–	(2.8)
Closing balance	\$ –	\$ 301.6	\$ 1,203.9	\$ 248.2	\$ –	\$ –	\$ 1,753.7
Net carrying value as at May 4, 2013	\$ 420.8	\$ 731.6	\$ 985.5	\$ 238.7	\$ 192.3	\$ –	\$ 2,568.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 4, 2013	Investments and Other Operations Segment						Total
	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Petroleum and Natural Gas	
Cost							
Opening balance	\$ 6.7	\$ 51.8	\$ 95.1	\$ 109.0	\$ 1.1	\$ 70.5	\$ 334.2
Additions	–	0.1	7.7	12.7	13.0	–	33.5
Additions from							
business acquisitions	–	–	2.6	2.9	–	–	5.5
Disposals and write downs	(4.1)	(9.4)	(1.0)	–	(10.6)	(70.5)	(95.6)
Closing balance	\$ 2.6	\$ 42.5	\$ 104.4	\$ 124.6	\$ 3.5	\$ –	\$ 277.6
Accumulated depreciation and impairment losses							
Opening balance	\$ –	\$ 24.1	\$ 62.5	\$ 42.9	\$ –	\$ 52.6	\$ 182.1
Disposals and write downs	–	(2.6)	–	–	–	(53.0)	(55.6)
Depreciation	–	2.3	5.4	6.1	–	0.4	14.2
Impairment losses	–	–	1.6	1.9	–	–	3.5
Impairment reversals	–	–	(0.5)	(0.2)	–	–	(0.7)
Closing balance	\$ –	\$ 23.8	\$ 69.0	\$ 50.7	\$ –	\$ –	\$ 143.5
Net carrying value as at May 4, 2013	\$ 2.6	\$ 18.7	\$ 35.4	\$ 73.9	\$ 3.5	\$ –	\$ 134.1
Consolidated property and equipment							
Net carrying value as at May 3, 2014	\$ 667.9	\$ 1,213.9	\$ 1,165.4	\$ 366.8	\$ 236.7	\$ –	\$ 3,650.7
Net carrying value as at May 4, 2013	\$ 423.4	\$ 750.3	\$ 1,020.9	\$ 312.6	\$ 195.8	\$ –	\$ 2,703.0

Finance leases

The Company has various property leases for store locations that are held under finance leases with a net carrying value of \$30.2 as at May 3, 2014 (2013 – \$4.3). These leases are included in buildings.

The Company has equipment leases under finance leases with a net carrying value of \$13.9 as at May 3, 2014 (2013 – \$22.1). These leases are included in equipment.

Assets under construction

During the year the Company capitalized borrowing costs of \$1.7 (2013 – \$6.0) on indebtedness related to property and equipment under construction. The Company used capitalization rate of 4.3% (2013 – 3.5% to 6.0%).

Security

As at May 3, 2014 the net carrying value of property pledged as security for borrowings is \$102.3 (2013 – \$111.3).

Impairment of property and equipment

Property and equipment is reviewed each reporting period for events or changes in circumstances which indicate that the carrying value of the assets may not be recoverable. The review is performed by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the property and equipment relates. The recoverable amount is the higher of fair value less costs of disposal and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized.

Recoverable amounts based on value in use calculations are determined using cash flow projections from the Company's latest internal forecasts as presented to the Board of Directors. Key assumptions used in determining value in use include those regarding 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 cash generating units.

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 8.0 to 10.0 percent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment losses arise when the carrying amount of the assets is higher than the greater of the present value of cash flows of a cash generating unit and its fair value less costs of disposal. Impairment losses of \$26.2 were recorded in the year ended May 3, 2014 (2013 – \$10.0).

Impairment reversals of \$19.8 were recorded in the year ended May 3, 2014 (2013 – \$3.5).

10. INVESTMENT PROPERTY

Investment property is comprised primarily 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 3, 2014	May 4, 2013
Cost		
Opening balance	\$ 112.1	\$ 102.2
Additions	6.8	10.7
Additions from business acquisitions	5.0	–
Transfers	6.5	4.6
Assets held for sale	–	(4.0)
Disposals and write downs	(9.4)	(1.4)
Closing balance	\$ 121.0	\$ 112.1
Accumulated depreciation and impairment losses		
Opening balance	\$ 15.2	\$ 15.3
Depreciation	0.8	0.6
Transfers	1.5	–
Impairment losses	–	0.4
Disposals and write downs	(1.0)	(1.1)
Closing balance	\$ 16.5	\$ 15.2
Net carrying value	\$ 104.5	\$ 96.9
Fair value	\$ 151.5	\$ 136.9

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 3, 2014 and at May 4, 2013. Additions to investment property through acquisition are transacted at fair value and therefore carrying value equals fair value. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information, internal valuation methodologies, or the use of an external independent valuation company.

Rental income from investment property included in the consolidated statements of earnings amounted to \$2.7 for the year ended May 3, 2014 (2013 – \$3.8).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to \$1.6 for the year ended May 3, 2014 (2013 – \$2.2). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to \$1.3 for the year ended May 3, 2014 (2013 – \$1.4). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of earnings.

Impairment of investment property follows the same methodology as property and equipment (Note 9). For the year ended May 3, 2014 impairment losses of \$ nil (2013 – \$0.4) and reversals of \$ nil (2013 – \$ nil) were recorded.

11. INTANGIBLES

May 3, 2014	Brand Names	Deferred Purchase Agreements	Franchise Rights/ Agreements	Prescription Files	Software	Lease Rights	Loyalty Programs	Private Labels	Off Market Leases	Other	Total
Cost											
Opening balance	\$ 201.0	\$ 97.6	\$ 54.3	\$ 33.0	\$ 180.8	\$ 48.7	\$ 11.4	\$ 59.5	\$ 1.6	\$ 24.4	\$ 712.3
Additions, separately acquired	–	16.4	0.6	0.2	0.3	2.5	–	–	–	1.7	21.7
Additions from business acquisitions	14.0	–	–	275.2	–	–	–	–	146.9	9.2	445.3
Transfers	–	–	–	–	71.3	–	–	–	–	–	71.3
Disposals and write downs	–	(4.2)	(5.2)	(1.6)	(1.7)	(3.0)	–	–	–	–	(15.7)
Closing balance	\$ 215.0	\$ 109.8	\$ 49.7	\$ 306.8	\$ 250.7	\$ 48.2	\$ 11.4	\$ 59.5	\$ 148.5	\$ 35.3	\$ 1,234.9
Accumulated amortization and impairment losses											
Opening balance	\$ 17.2	\$ 30.9	\$ 31.9	\$ 20.0	\$ 83.3	\$ 24.5	\$ –	\$ –	\$ 0.2	\$ 13.8	\$ 221.8
Amortization	3.7	13.1	4.0	11.4	26.5	3.0	–	–	3.7	2.7	68.1
Impairment losses	–	–	–	–	0.5	–	–	–	–	–	0.5
Impairment reversals	–	–	–	(0.4)	(0.1)	–	–	–	–	–	(0.5)
Disposals and write downs	–	(3.5)	(4.1)	(0.1)	(1.3)	(3.0)	–	–	6.2	–	(5.8)
Closing balance	\$ 20.9	\$ 40.5	\$ 31.8	\$ 30.9	\$ 108.9	\$ 24.5	\$ –	\$ –	\$ 10.1	\$ 16.5	\$ 284.1
Net carrying value as at May 3, 2014	\$ 194.1	\$ 69.3	\$ 17.9	\$ 275.9	\$ 141.8	\$ 23.7	\$ 11.4	\$ 59.5	\$ 138.4	\$ 18.8	\$ 950.8

May 4, 2013	Brand Names	Deferred Purchase Agreements	Franchise Rights/ Agreements	Prescription Files	Software	Lease Rights	Loyalty Programs	Private Labels	Off Market Leases	Other	Total
Cost											
Opening balance	\$ 201.0	\$ 89.9	\$ 58.8	\$ 32.8	\$ 119.8	\$ 49.7	\$ 11.4	\$ 59.5	\$ 1.6	\$ 23.6	\$ 648.1
Additions, separately acquired	–	13.2	–	–	0.2	0.8	–	–	–	1.5	15.7
Additions from business acquisitions	–	–	–	0.2	–	–	–	–	–	–	0.2
Transfers	–	–	–	–	60.8	–	–	–	–	–	60.8
Disposals and write downs	–	(5.5)	(4.5)	–	–	(1.8)	–	–	–	(0.7)	(12.5)
Closing balance	\$ 201.0	\$ 97.6	\$ 54.3	\$ 33.0	\$ 180.8	\$ 48.7	\$ 11.4	\$ 59.5	\$ 1.6	\$ 24.4	\$ 712.3
Accumulated amortization and impairment losses											
Opening balance	\$ 14.2	\$ 25.5	\$ 29.4	\$ 18.0	\$ 63.6	\$ 22.8	\$ –	\$ –	\$ –	\$ 12.8	\$ 186.3
Amortization	3.0	9.8	5.2	2.0	19.7	3.1	–	–	0.2	1.5	44.5
Disposals and write downs	–	(4.4)	(2.7)	–	–	(1.4)	–	–	–	(0.5)	(9.0)
Closing balance	\$ 17.2	\$ 30.9	\$ 31.9	\$ 20.0	\$ 83.3	\$ 24.5	\$ –	\$ –	\$ 0.2	\$ 13.8	\$ 221.8
Net carrying value as at May 4, 2013	\$ 183.8	\$ 66.7	\$ 22.4	\$ 13.0	\$ 97.5	\$ 24.2	\$ 11.4	\$ 59.5	\$ 1.4	\$ 10.6	\$ 490.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition to development costs capitalized related to software, the Company included in selling and administrative expenses \$6.5 of research and development costs (2013 – \$6.7).

Impairment of intangibles follows the same methodology as property and equipment (Note 9). For the year ended May 3, 2014 impairment losses of \$0.5 (2013 – \$ nil) and reversals of \$0.5 (2013 – \$ nil) were recorded.

Included in intangibles as at May 3, 2014, and May 4, 2013 are the following amounts with indefinite useful lives: Brand names – \$172.8; Loyalty programs \$11.4; and Private labels \$59.5 all of which relate to the food retailing segment. Impairment of these intangibles is assessed annually on the same basis as goodwill as noted in Note 12 below.

12. GOODWILL

	May 3, 2014	May 4, 2013
Opening balance	\$ 1,310.4	\$ 1,302.1
Additions from business acquisitions	2,884.4	8.3
Transfer to assets held for sale	(19.4)	–
Impairments	(9.1)	–
Disposals	(32.6)	–
Other	0.3	–
Closing balance	\$ 4,134.0	\$ 1,310.4

As a result of changes in the Chief Operating Decision Makers of the Company, allocation of goodwill has been updated to reflect the new operating segments. Prior year balances have been reclassified to reflect the current year change.

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 operating segments:

	May 3, 2014	May 4, 2013
Atlantic	\$ 121.0	\$ 121.0
Lawtons	15.4	14.8
Ontario	98.8	97.2
Quebec	526.0	523.7
West	493.8	512.0
Canada Safeway acquisition	2,879.0	–
Investments and other operations	–	41.7
Total	\$ 4,134.0	\$ 1,310.4

Goodwill related to the Canada Safeway acquisition, will be allocated across the Company's six operating segments upon finalization of the valuations and related accounting for the acquisition in fiscal 2015. The allocations will be based on synergies expected to be realized in each segment, with the majority expected to be allocated to the West.

Impairment of goodwill

Goodwill is subject to impairment testing on an annual basis. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. The Company performs an annual review during its first quarter, and no impairment was recorded (2013 – \$ nil). In performing the review, the Company determined the recoverable amount of goodwill based on fair value less costs of disposal. The key assumption used by management to determine the fair value of the cash generating unit 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.

As part of the sale of Empire Theatres (Note 23), goodwill relating to Empire Theatres, which was previously assessed as one operating segment, was assessed for each of the two sales transactions separately. As a result of this assessment, an impairment loss of \$9.1 was recorded and is reported as part of discontinued operations.

13. INCOME TAXES

Income tax 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 3, 2014	May 4, 2013
Earnings before income taxes	\$ 195.3	\$ 517.8
Effective combined statutory income tax rate	26.7%	26.9%
Income tax expense according to combined statutory income tax rate	52.1	139.3
Income taxes resulting from:		
Non-deductible items	6.7	1.3
Capital items	(1.5)	(3.1)
Non-taxable items	(4.5)	(1.2)
Change in tax rates	3.2	1.2
Remeasurement of deferred tax attributes	(20.7)	–
Other	1.0	(1.1)
Total income taxes, combined effective tax rate of 18.6% (2013 – 26.3%)	\$ 36.3	\$ 136.4

Current year income tax expense attributable to net earnings consists of:

	May 3, 2014	May 4, 2013
Current tax expense	\$ 135.9	\$ 158.5
Deferred tax expense:		
Origination and reversal of temporary differences	(82.1)	(23.3)
Change in tax rates	3.2	1.2
Remeasurement of deferred tax attributes	(20.7)	–
Total	\$ 36.3	\$ 136.4

The Company completed a remeasurement of its deferred income tax provision in the year ended May 3, 2014 resulting in an adjustment of certain tax attributes recognized in earnings in the amount of \$20.7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Recognized in:				
	Opening Balance	Other Comprehensive Income and Equity	Business Acquisitions	Net Earnings	Closing Balance
May 3, 2014					
Accounts payable and accrued liabilities	\$ 3.2	\$ –	\$ 2.0	\$ 1.3	\$ 6.5
Equity	–	20.1	–	(4.1)	16.0
Goodwill and intangibles	(102.0)	–	(20.7)	(37.0)	(159.7)
Inventory	2.2	–	–	2.1	4.3
Investments	(29.6)	–	–	15.7	(13.9)
Long-term debt	7.3	–	9.5	0.1	16.9
Other assets	–	–	–	(0.9)	(0.9)
Other long-term liabilities	78.3	(11.7)	32.9	(0.9)	98.6
Property, equipment and investment property	(79.0)	–	3.6	15.0	(60.4)
Provisions	22.5	–	2.9	38.2	63.6
Partnership deferral reserve	(43.7)	–	–	38.7	(5.0)
Losses	3.8	2.1	–	34.0	39.9
Other	(1.3)	–	1.4	5.7	5.8
	\$ (138.3)	\$ 10.5	\$ 31.6	\$ 107.9	\$ 11.7
Less: Recognized in discontinued operations				(8.3)	
Recognized in continuing operations				99.6	
Recognized as:					
Deferred tax assets	\$ 42.3	\$ 25.5	\$ 40.3	\$ 22.9	\$ 131.0
Deferred tax liabilities	\$ (180.6)	\$ (15.0)	\$ (8.7)	\$ 85.0	\$ (119.3)

	Recognized in:				
	Opening Balance	Other Comprehensive Income and Equity	Business Acquisitions	Net Earnings	Closing Balance
May 4, 2013					
Accounts payable and accrued liabilities	\$ 3.8	\$ –	\$ –	\$ (0.6)	\$ 3.2
Equity	–	–	–	–	–
Goodwill and intangibles	(100.0)	–	–	(2.0)	(102.0)
Inventory	3.6	–	–	(1.4)	2.2
Investments	(18.9)	(0.4)	–	(10.3)	(29.6)
Long-term debt	3.8	–	–	3.5	7.3
Other assets	4.4	–	–	(4.4)	–
Other long-term liabilities	77.1	(4.3)	–	5.5	78.3
Property, equipment and investment property	(66.1)	–	–	(12.9)	(79.0)
Provisions	21.6	–	–	0.9	22.5
Partnership deferral reserve	(87.2)	–	–	43.5	(43.7)
Losses	1.5	–	–	2.3	3.8
Other	3.1	–	–	(4.4)	(1.3)
	\$ (153.3)	\$ (4.7)	\$ –	\$ 19.7	\$ (138.3)
Less: Recognized in discontinued operations				2.4	
Recognized in continuing operations				22.1	
Recognized as:					
Deferred tax assets	\$ 36.7	\$ –	\$ –	\$ 5.6	\$ 42.3
Deferred tax liabilities	\$ (190.0)	\$ (4.7)	\$ –	\$ 14.1	\$ (180.6)

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 \$(90.8).

14. BANK INDEBTEDNESS

As security for certain bank loans, the Company provided an assignment of certain marketable securities and, in certain subsidiaries and joint ventures, general assignments of receivables and leases, first floating charge debentures on assets and the assignment of proceeds of fire insurance policies. The interest rate at May 4, 2013 was 3.9%.

15. PROVISIONS

The provisions carrying amounts are comprised of the following:

May 3, 2014	Lease Contracts	Legal	Environmental	Restructuring	Other	Total
Opening balance	\$ 26.5	\$ 5.6	\$ 36.4	\$ 10.5	\$ 4.5	\$ 83.5
Assumed in business acquisitions	–	7.5	7.1	–	–	14.6
Provisions made	15.4	3.6	1.0	141.9	–	161.9
Provisions used	(10.5)	(3.7)	(3.4)	(11.8)	(1.3)	(30.7)
Provisions reversed	(4.8)	(1.8)	(0.7)	(1.9)	–	(9.2)
Change due to discounting	1.4	–	1.5	–	0.1	3.0
Closing balance	\$ 28.0	\$ 11.2	\$ 41.9	\$ 138.7	\$ 3.3	\$ 223.1
Current	\$ 8.6	\$ 11.2	\$ 4.5	\$ 55.3	\$ 2.8	\$ 82.4
Non-current	19.4	–	37.4	83.4	0.5	140.7
Total	\$ 28.0	\$ 11.2	\$ 41.9	\$ 138.7	\$ 3.3	\$ 223.1

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 and theatre 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 or theatre 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 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 \$11.2 that are outstanding as at May 3, 2014 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 primarily relate to decommissioning liabilities recorded for gas station locations owned by the Company 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 15.0 percent.

Restructuring

Restructuring provisions relate to the Company's initiatives to lower operating costs and improve financial performance. The Company performed an analysis of its retail store network and recorded a \$137.1 restructuring provision in the fourth quarter of fiscal 2014 for planned store closures. This provision includes severance costs of \$29.7, onerous lease costs of \$98.8, and other restructuring costs of \$8.6. The value of the provision is management's best estimate of the amount of expenditures expected to occur throughout fiscal 2015.

Total restructuring costs of \$169.8 were recognized in selling and administrative expenses for the year ended May 3, 2014. This expense includes write downs of \$35.8 to property and equipment and intangible assets, a \$3.1 reversal of straight-line lease provisions, and \$137.1 for severance, onerous lease, and other costs as noted above.

Other

The Company has obligations to provide various forms of support to Crombie REIT pursuant to various agreements between the parties. These amounts are included in other provisions.

16. LONG-TERM DEBT

	May 3, 2014	May 4, 2013
First mortgage loans, weighted average interest rate 7.87%, due 2014 – 2021	\$ 37.4	\$ 41.9
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 debentures, weighted average interest rate 9.33%, due 2014 – 2016	14.0	28.3
Series 2013-1 Notes, interest rate 3.52%, due August 8, 2018	500.0	–
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	500.0	–
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	141.2	125.9
Credit facility, due November 4, 2017, floating interest rate tied to bankers' acceptance rates	1,735.0	181.0
	3,477.6	927.1
Unamortized transaction costs	(45.1)	(2.3)
Finance lease obligations, weighted average interest rate 5.81%, due 2014 – 2040	65.4	38.7
	3,497.9	963.5
Less amount due within one year	218.0	47.6
Balance, end of year	\$ 3,279.9	\$ 915.9

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 September 26, 2012, the Company extended the term of its credit facilities to a maturity date of June 30, 2015. The credit facilities were further extended on November 4, 2013 to November 4, 2017.

On August 8, 2013, in connection with the Canada Safeway acquisition, Sobeys completed a private placement of \$500.0 aggregate principal amount of 3.52 percent Notes, Series 2013-1 due August 8, 2018 (the "Series 2013-1 Notes") and \$500.0 aggregate principal amount of 4.70 percent Notes, Series 2013-2 due August 8, 2023 (the "Series 2013-2 Notes" and together with the Series 2013-1 Notes, the "Notes"). The aggregate net proceeds were approximately \$987.1 after deducting underwriting fees and the purchase discount on the 2013-1 Notes. Upon closing of the Canada Safeway acquisition, the net proceeds of \$987.1 were released from escrow and used to partially finance the acquisition.

Pursuant to an agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of \$1,825.0; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of \$1,327.9; and a revolving term credit facility (the "RT Facility") in the amount of \$450.0.

On November 4, 2013, the RT Facility replaced Sobeys' previous unsecured revolving term credit facility of \$450.0, the Acquisition Facility was fully drawn for \$1,825.0 and the Bridge Facility was drawn for \$200.0 in order to partially finance the Canada Safeway acquisition. As of May 3, 2014, the outstanding amount of the Acquisition Facility was \$1,625.0, the Bridge Facility was fully repaid and matured, and the Company had issued \$79.0 in letters of credit against the RT facility (2013 – \$80.6). Deferred financing fees in the amount of \$29.3 were incurred on the draw down of the Acquisition and Bridge Facilities and have been offset against the long-term debt amounts for presentation purposes. Interest payable on the Acquisition and RT Facilities fluctuates with changes in the bankers' acceptance rate or Canadian prime rate, and both facilities mature on November 4, 2017.

Further information on the Company's Canada Safeway acquisition can be found in Note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2015	\$ 218.3
2016	209.2
2017	205.4
2018	1,293.5
2019	508.0
Thereafter	1,043.2

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
2015	\$ 14.1	\$ 3.0	\$ 11.1
2016	12.3	2.6	9.7
2017	11.6	2.1	9.5
2018	9.0	1.7	7.3
2019	7.4	1.4	6.0
Thereafter	30.6	8.8	21.8
Total	\$ 85.0	\$ 19.6	\$ 65.4

During fiscal 2014 the Company increased its finance lease obligation, excluding \$37.0 related to the Canada Safeway acquisition, by \$2.4 (2013 – \$8.8) 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.

17. OTHER LONG-TERM LIABILITIES

	May 3, 2014	May 4, 2013
Deferred lease obligation	\$ 84.3	\$ 104.0
Accrued benefit liability (Note 18)	119.1	63.0
Employee future benefits (Note 18)	174.5	133.9
Deferred revenue	5.0	5.3
Other	6.3	3.5
Total	\$ 389.2	\$ 309.7

18. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 April 30 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	May 1, 2012	May 1, 2015

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 17.0 percent of employees in the Company and of its independent franchisees 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.

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 \$30.4 for the year ended May 3, 2014 (2013 – \$25.2).

Defined benefit plans

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

	Pension Benefit Plans		Other Benefit Plans	
	May 3, 2014	May 4, 2013	May 3, 2014	May 4, 2013
Defined benefit obligation				
Balance, beginning of year	\$ 310.6	\$ 301.0	\$ 133.9	\$ 143.3
Additions from business acquisitions	531.0	–	43.9	–
Current service cost, net of employee contributions	3.2	1.7	2.7	1.4
Interest cost	22.9	12.3	6.1	5.4
Employee contributions	0.1	0.1	–	–
Benefits paid	(45.9)	(22.4)	(5.6)	(4.3)
Past service costs	0.6	1.0	–	–
Past service costs – curtailments	–	–	(0.3)	–
Remeasurement – actuarial losses (gains) included in other comprehensive income	19.0	16.9	(6.2)	(11.9)
Balance, end of year	\$ 841.5	\$ 310.6	\$ 174.5	\$ 133.9
Plan assets				
Fair value, beginning of year	\$ 247.6	\$ 230.9	\$ –	\$ –
Additions from business acquisitions	437.4	–	–	–
Interest income on plan assets	18.5	9.5	–	–
Remeasurement return on plan assets (excluding amount in net interest)	53.9	20.0	–	–
Employer contributions	11.9	9.6	5.6	4.3
Employee contributions	0.1	0.1	–	–
Benefits paid	(45.9)	(22.4)	(5.6)	(4.3)
Administrative costs	(1.1)	(0.1)	–	–
Fair value, end of year	\$ 722.4	\$ 247.6	\$ –	\$ –

	Pension Benefit Plans		Other Benefit Plans	
	May 3, 2014	May 4, 2013	May 3, 2014	May 4, 2013
Funded status				
Total fair value of plan assets	\$ 722.4	\$ 247.6	\$ –	\$ –
Present value of unfunded obligations	(83.2)	(46.1)	(174.5)	(133.9)
Present value of partially funded obligations	(758.3)	(264.5)	–	–
Accrued benefit liabilities	\$ (119.1)	\$ (63.0)	\$ (174.5)	\$ (133.9)

Accrued benefit liabilities have been recognized within other long-term liabilities on the consolidated balance sheets.

	Pension Benefit Plans		Other Benefit Plans	
	May 3, 2014	May 4, 2013	May 3, 2014	May 4, 2013
Expenses				
Current service cost, net of employee contributions	\$ 3.2	\$ 1.7	\$ 2.7	\$ 1.4
Net interest on net defined benefit liability	4.4	2.8	6.1	5.4
Administrative costs	1.1	0.1	–	–
Actuarial loss recognized	–	–	0.1	0.1
Past service costs	0.6	1.0	–	–
Past service costs – curtailments	–	–	(0.3)	–
Costs	\$ 9.3	\$ 5.6	\$ 8.6	\$ 6.9

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 earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Actuarial gains and losses recognized directly in other comprehensive income:

	Pension Benefit Plans		Other Benefit Plans	
	May 3, 2014	May 4, 2013	May 3, 2014	May 4, 2013
Remeasurement effects recognized in other comprehensive income				
Return on plan assets (excluding amounts in net interest)	\$ (53.9)	\$ (20.1)	\$ –	\$ –
Actuarial gain – experience changes	(6.2)	(1.4)	(7.0)	(14.4)
Actuarial loss (gain) – demographic assumptions	12.5	–	9.3	(3.1)
Actuarial loss (gain) – financial assumptions	12.5	18.2	(8.5)	5.6
Remeasurement effects recognized in other comprehensive income	\$ (35.1)	\$ (3.3)	\$ (6.2)	\$ (11.9)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 3, 2014):

	Pension Benefit Plans		Other Benefit Plans	
	May 3, 2014	May 4, 2013	May 3, 2014	May 4, 2013
Discount rate	4.25%	3.75%	4.00%	4.00%
Rate of compensation increase	3.50%	4.00%		

For measurement purposes, a 7.50 percent fiscal 2014 annual rate of increase in the per capita cost of covered health care benefits was assumed (2013 – 8.00 percent). The cumulative rate expectation to 2019 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 regards 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 2014 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⁾	4.25%	4.00%	4.00%	4.00%
Impact of: 1% increase	\$ (107.8)	\$ (3.8)	\$ (21.3)	\$ 0.1
Impact of: 1% decrease	\$ 136.2	\$ 1.8	\$ 26.3	\$ (0.3)
Growth rate of health care costs ⁽³⁾			7.50%	7.50%
Impact of: 1% increase			\$ 21.3	\$ 1.2
Impact of: 1% decrease			\$ (17.5)	\$ (1.0)

(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 2019 and remaining at that level thereafter.

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

	May 3, 2014	May 4, 2013
Canadian equity funds	38.4%	36.7%
Foreign equity funds	35.9%	39.6%
Fixed income funds	25.6%	23.7%
Cash	0.1%	–
Total investments	100.0%	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	May 3, 2014	% of Plan Assets	May 4, 2013	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	\$ 104.0	7.7%	\$ 102.8	8.6%

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 \$71.3 for the year ended May 3, 2014 (2013 – \$29.3).

Management's best estimate of contributions expected to be paid to the defined benefit plans during the annual period beginning on May 4, 2014 and ending on May 2, 2015 is \$8.6.

Multi-employer plans

During the year ended May 3, 2014, the Company recognized an expense of \$24.4 (2013 – \$ nil) in operating income, which represents the contributions made in connection with multi-employer pension plans. During fiscal 2015, the Company expects to continue to make contributions into these multi-employer pension plans.

19. CAPITAL STOCK

Authorized	Number of Shares	
	May 3, 2014	May 4, 2013
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	257,044,056	257,044,056
Class B common share, without par value, voting	40,800,000	40,800,000

Issued and outstanding:	Number of Shares	May 3, 2014	May 4, 2013
Non-Voting Class A	58,049,484	2,101.0	311.7
Class B common	34,260,763	7.6	7.6
Total		\$ 2,108.6	\$ 319.3

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.

On November 4, 2013, in connection with the Canada Safeway acquisition the Company issued 24,265,000 Non-Voting Class A shares, resulting in additions to capital stock of \$1,842.6 before transaction costs. Transaction costs of \$55.8, net of deferred taxes of \$20.1, have been offset against the proceeds as they directly relate to the issuance of the common shares.

During fiscal 2014, the Company paid preferred dividends of \$ nil (2013 – \$ nil) and common dividends of \$83.3 (2013 – \$65.2) to its equity holders. This represents a payment of \$1.04 per share (2013 – \$0.96 per share) for common shareholders.

20. OTHER INCOME

	May 3, 2014	May 4, 2013
Gain on disposal of assets	\$ 8.0	\$ 26.4
Dilution gains	4.3	18.2
Investment income	1.8	9.6
Total	\$ 14.1	\$ 54.2

21. EMPLOYEE BENEFITS EXPENSE

	May 3, 2014	May 4, 2013
Wages, salaries and other short-term employment benefits	\$ 2,468.7	\$ 2,012.5
Post-employment benefits	37.8	28.7
Termination benefits	24.2	10.2
Total	\$ 2,530.7	\$ 2,051.4

22. FINANCE COSTS, NET

Finance income and finance costs are reported on a net basis in the consolidated statements of earnings.

	May 3, 2014	May 4, 2013
Finance income		
Interest income from cash and cash equivalents	\$ 9.1	\$ 3.0
Fair value gains on cash flow hedges	–	0.2
Fair value gains on other financial assets	–	1.6
Gain on disposal of financial assets	1.2	–
Total finance income	10.3	4.8
Finance costs		
Interest expense on financial liabilities measured at amortized cost	132.5	49.6
Fair value losses on forward contracts	0.6	0.8
Losses on cash flow hedges reclassified from other comprehensive income	–	1.7
Net pension finance costs	10.4	8.1
Total finance costs	143.5	60.2
Finance costs, net	\$ 133.2	\$ 55.4

23. DISCONTINUED OPERATIONS

During the second quarter of fiscal 2014, Empire Theatres completed its asset sales transactions with two unrelated parties as announced on June 27, 2013. Details of the sale are as follows:

Net proceeds on disposal	\$ 259.2
Book value of property and equipment sold	114.4
Book value of goodwill sold	32.6
Book value of intangible assets sold	0.5
Write off of property and equipment	0.4
Write off of deferred tenant inducements and market lease adjustments	(14.2)
Write off of straight line rent	(4.2)
Estimated transaction costs	3.0
Other costs	1.5
	134.0
Gain before income taxes	125.2
Income taxes	21.0
Gain on disposal of assets, net of tax	\$ 104.2

Certain assets which remain with Empire Theatres have been presented as held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Assets of disposal groups classified as held for sale:

	May 3, 2014
Property and equipment	\$ 5.3

Analysis of the operating results of the discontinued operations, and results recognized as a result of re-measurement of the disposal groups, sale of the disposal groups and recognition of restructuring costs is as follows:

	May 3, 2014	May 4, 2013
Sales	\$ 127.5	\$ 211.9
Other income	–	2.6
Expenses, including finance costs of \$0.8 for the 52 weeks to date (2013 – \$1.6)	120.2	205.4
Earnings before income taxes of discontinued operations	7.3	9.1
Income taxes	2.1	1.9
Net earnings of discontinued operations	5.2	7.2
Loss recognized on re-measurement of assets of disposal groups to fair value less cost to sell, net of tax of \$6.2 for the 52 weeks to date	(15.7)	–
Gain on disposal of assets, net of tax of (\$21.0) for the 52 weeks to date	104.2	–
Restructuring costs, net of tax of \$3.6 for the 52 weeks to date	(9.3)	–
Net gain from re-measurement and disposal of assets and from restructuring costs	79.2	–
Net earnings from discontinued operations	\$ 84.4	\$ 7.2

Cash flows from discontinued operations:

	May 3, 2014	May 4, 2013
Operating cash flows	\$ (24.9)	\$ 22.8
Investing cash flows	\$ 239.3	\$ (14.1)
Financing cash flows	\$ (21.0)	\$ (7.5)

24. EARNINGS PER SHARE

Earnings applicable to common shares are comprised of the following:

	May 3, 2014	May 4, 2013
Earnings from continuing operations	\$ 151.0	\$ 372.3
Earnings from discontinued operations	84.4	7.2
Earnings applicable to common shares	\$ 235.4	\$ 379.5

Earnings per share is comprised of the following:

	May 3, 2014	May 4, 2013
Basic earnings per share		
From continuing operations	\$ 1.89	\$ 5.48
From discontinued operations	1.05	0.11
	\$ 2.94	\$ 5.59
Diluted earnings per share		
From continuing operations	\$ 1.88	\$ 5.47
From discontinued operations	1.05	0.11
	\$ 2.93	\$ 5.58

The weighted average number of outstanding shares as at May 3, 2014 used for basic earnings per share amounted to 80,049,235 (2013 – 67,948,510) shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	May 3, 2014	May 4, 2013
Weighted average number of shares used in basic earnings per share	80,049,235	67,948,510
Shares deemed to be issued for no consideration in respect of stock-based payments	159,691	134,746
Weighted average number of shares used in diluted earnings per share	80,208,926	68,083,256

25. BUSINESS ACQUISITIONS

The Company completed the Canada Safeway acquisition and also acquired franchise and non-franchise stores, retail gas locations, and prescription files during the year ended May 3, 2014. 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.

The following table represents the amounts of identifiable assets from resulting acquisitions for the respective periods:

	May 3, 2014	May 4, 2013
Stores, retail gas locations and theatres		
Inventories	\$ 457.9	\$ 1.7
Property, equipment and investment property	1,109.3	10.1
Intangibles	138.8	–
Deferred tax assets	40.3	–
Assets held for sale	391.4	–
Assets acquired for sale-leaseback	991.3	–
Goodwill	2,884.4	8.3
Accounts payable and accrued liabilities	(397.7)	–
Pension obligations	(137.5)	–
Deferred tax liabilities	(8.7)	–
Other assets and liabilities	49.0	(2.4)
	5,518.5	17.7
Prescription files		
Intangibles	306.5	0.2
Cash consideration	\$ 5,825.0	\$ 17.9

From the date of acquisition, the businesses acquired contributed sales of \$3,286.1 and net earnings of \$76.0 for the year ended May 3, 2014.

If the acquisitions had occurred on May 5, 2013, management estimates that consolidated sales would have been \$24,058.2 and consolidated net earnings would have been \$274.3 for the year ended May 3, 2014. 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 5, 2013. These amounts do not include an estimate for the impact that may have occurred to sales and net earnings for the year ended May 3, 2014, related to the retail stores required to be divested. The consolidated net earnings includes one-time non-recurring adjustments relating to the Canada Safeway acquisition, including \$17.1 in cost of sales resulting from the turnover of inventory acquired and measured at fair value, and \$97.8 in selling and administrative expenses for transaction costs.

Canada Safeway Acquisition

On June 12, 2013, the Company entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to purchase substantially all of the assets and select liabilities of Canada Safeway ULC for a cash purchase price of \$5,800.0, subject to a working capital adjustment. The agreement provided for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities. On October 22, 2013, regulatory clearance was obtained from the Competition Bureau which required the divestiture of 23 Sobeys and Canada Safeway ULC stores. During the Company's fourth quarter, 12 of the 23 stores were divested, and the remaining 11 stores have been included in assets held for sale as of May 3, 2014 as discussed in Note 6. The Canada Safeway acquisition closed effective Sunday, November 3, 2013, with funds being delivered on Monday, November 4, 2013. Empire and Sobeys financed the acquisition with a combination of the following: (i) a \$1,844.1, net of fees of \$75.8, Empire equity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

offering which closed on July 31, 2013; (ii) a \$991.3 sale-leaseback of acquired real estate assets, as discussed in Note 30; (iii) \$2,025.0 in term credit facilities, as discussed in Note 16; (iv) the issuance of \$1,000.0 in unsecured notes by Sobeys, as discussed in Note 16; and (v) available cash on hand. Crombie REIT has a right of first offer in respect of any real estate sales undertaken by Sobeys.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

Inventories	\$	451.0
Property, equipment and investment property		1,096.6
Assets held for sale		391.4
Assets acquired for sale-leaseback		991.3
Intangibles		444.8
Deferred tax assets		40.3
Accounts payable and accrued liabilities		(397.7)
Pension obligations		(137.5)
Deferred tax liabilities		(8.7)
Other assets and liabilities		49.5
Total identifiable net assets	\$	2,921.0
Excess consideration paid over identifiable net assets acquired allocated to goodwill	\$	2,879.0

The fair value of the identifiable net assets and goodwill acquired effective November 3, 2013 have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Goodwill of \$2,879.0 was recognized as the excess of the acquisition cost over the fair value of the identifiable net assets at the date of the acquisition. The goodwill recognized is attributable mainly to the expected synergies from integration, the expected future growth potential in grocery store operations, and the customer base of the acquired retail store locations. Approximately \$2,220.6 of goodwill is expected to be deductible for income tax purposes.

Acquisition costs of \$97.8 relating to external legal, consulting, due diligence, financial advisory and other closing costs incurred during the year ended May 3, 2014, have been included in selling and administrative expenses in the consolidated statements of earnings.

26. GUARANTEES, COMMITMENTS, AND CONTINGENT LIABILITIES

Guarantees

Franchise 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 franchise 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 franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of \$7.0 or 9.9 percent (2013 – \$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 3, 2014, the amount of the guarantee was \$7.0 (2013 – \$7.0).

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee should franchise 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 \$70.0 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 independent franchisees for the purchase and installation of equipment. Under the terms of the contract should franchisee 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 (2013 – \$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 independent franchisees. 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 3, 2014 the amount of the guarantee was \$6.0 (2013 – \$6.0).

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The minimum rent payments under the guaranteed operating equipment leases over the next five fiscal years are:

	Third Parties
2015	\$ 13.5
2016	0.3
2017	–
2018	–
2019	–
Thereafter	–

Other

At May 3, 2014, the Company was contingently liable for letters of credit issued in the aggregate amount of \$94.6 (2013 – \$97.8).

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 of its obligations under the lease. The remaining term of the lease is 6 years with an aggregate obligation of \$19.5 (2013 – \$22.6). 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 centers, theatres, offices, and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options, and basis on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 3, 2014 is approximately \$3,857.2. This reflects a gross lease obligation of \$4,838.0 reduced by expected sub-lease income of \$980.8. 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
2015	\$ 226.9	\$ 340.9	\$ 123.7	\$ 123.7
2016	198.5	305.9	122.0	122.0
2017	178.8	274.8	122.1	122.1
2018	158.4	243.3	121.4	121.4
2019	139.7	213.5	122.9	122.9
Thereafter	787.6	1,292.3	1,555.2	1,555.2

The Company recorded \$500.0 (2013 – \$440.0) as an expense for minimum lease payments for the year ended May 3, 2014 in the consolidated statements of earnings. The expense was offset by sub-lease income of \$155.9 (2013 – \$129.9), and a further \$11.9 (2013 – \$9.2) 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 basis on which contingent rent is receivable.

Rental income for the year ended May 3, 2014 was \$34.3 (2013 – \$59.2) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized \$0.9 of contingent rent for the year ended May 3, 2014 (2013 – \$1.0).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The lease payments expected to be received over the next five fiscal years are:

	Third Parties
2015	\$ 19.9
2016	17.6
2017	16.4
2018	14.4
2019	13.3
Thereafter	74.9

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 the Goods and Service Tax ("GST"). 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. Accordingly, Sobeys has not recorded in its statements of 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, which the Company is involved with, 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.

27. 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 franchise affiliates (Note 26).

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 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 3, 2014	May 4, 2013
0 – 30 days	\$ 365.1	\$ 320.5
31 – 90 days	40.6	36.3
Greater than 90 days	75.1	44.1
Total receivables before allowance for credit losses	480.8	400.9
Less: allowance for credit losses	(20.3)	(19.2)
Receivables	\$ 460.5	\$ 381.7

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Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses in the consolidated statements of earnings. Receivables are classified as current on the consolidated balance sheets as of May 3, 2014.

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 franchise 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 franchise or affiliate locations. Current and long-term receivables, loans and other receivables are reviewed on a regular basis 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 earnings and is presented as follows:

	May 3, 2014	May 4, 2013
Allowance, beginning of year	\$ 19.2	\$ 21.8
Provision for losses	7.1	2.7
Recoveries	(5.0)	(1.1)
Write-offs	(1.0)	(4.2)
Allowance, end of year	\$ 20.3	\$ 19.2

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 3, 2014:

	2015	2016	2017	2018	2019	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	\$ 1.3	\$ 1.4	\$ 1.6	\$ 1.5	\$ –	\$ –	\$ 5.8
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	2,246.0	–	–	–	–	–	2,246.0
Long-term debt	318.2	306.2	302.2	1,370.2	570.1	1,706.4	4,573.3
Total	\$ 2,565.5	\$ 307.6	\$ 303.8	\$ 1,371.7	\$ 570.1	\$ 1,706.4	\$ 6,825.1

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, 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.

There were no transfers between classes of the fair value hierarchy during the year ended May 3, 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the classification of the Company's financial instruments, as well as their carrying amounts and fair values:

May 3, 2014	FVTPL	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets						
Cash and cash equivalents	\$ -	\$ -	\$ 429.3	\$ -	\$ 429.3	\$ 429.3
Receivables	-	-	460.5	-	460.5	460.5
Loans and other receivables	-	-	98.9	-	98.9	98.9
Investments	-	24.8	-	-	24.8	24.8
Other assets ⁽¹⁾	6.8	-	-	-	6.8	6.8
Total financial assets	\$ 6.8	\$ 24.8	\$ 988.7	\$ -	\$ 1,020.3	\$ 1,020.3
Fair value level 1	\$ 6.3	\$ 24.8				\$ 31.1
Fair value level 2	0.5	-				0.5
Fair value level 3	-	-				-
	\$ 6.8	\$ 24.8				\$ 31.6
Financial liabilities						
Accounts payable and accrued liabilities	-	-	-	2,246.0	2,246.0	2,246.0
Long-term debt	-	-	-	3,497.9	3,497.9	3,637.7
Total financial liabilities	\$ -	\$ -	\$ -	\$ 5,743.9	\$ 5,743.9	\$ 5,883.7
Fair value level 1	\$ -	\$ -				\$ -
Fair value level 2	-	-				-
Fair value level 3	-	-				-
	\$ -	\$ -				\$ -

(1) The total carrying value of financial assets included in other assets is \$6.8.

May 4, 2013	FVTPL	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial assets						
Cash and cash equivalents	\$ -	\$ -	\$ 455.2	\$ -	\$ 455.2	\$ 455.2
Receivables	-	-	381.7	-	381.7	381.7
Investments – current	14.5	-	-	-	14.5	14.5
Loans and other receivables	-	-	120.0	-	120.0	120.0
Investments	-	25.0	-	-	25.0	25.0
Other assets ⁽¹⁾	26.9	-	-	-	26.9	26.9
Total financial assets	\$ 41.4	\$ 25.0	\$ 956.9	\$ -	\$ 1,023.3	\$ 1,023.3
Fair value level 1	\$ 16.6	\$ 25.0				\$ 41.6
Fair value level 2	-	-				-
Fair value level 3	24.8	-				24.8
	\$ 41.4	\$ 25.0				\$ 66.4
Financial liabilities						
Bank indebtedness	\$ -	\$ -	\$ -	\$ 6.0	\$ 6.0	\$ 6.0
Accounts payable and accrued liabilities	-	-	-	1,765.8	1,765.8	1,765.8
Long-term debt	-	-	-	963.5	963.5	1,060.0
Derivative financial liabilities ⁽²⁾	0.2	-	-	-	0.2	0.2
Total financial liabilities	\$ 0.2	\$ -	\$ -	\$ 2,735.3	\$ 2,735.5	\$ 2,832.0
Fair value level 1	\$ -	\$ -				\$ -
Fair value level 2	0.2	-				0.2
Fair value level 3	-	-				-
	\$ 0.2	\$ -				\$ 0.2

(1) The total carrying value of financial assets included in other assets is \$26.9.

(2) Derivative financial liabilities are included in other long-term liabilities on the consolidated balance sheets.

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The fair value of financial assets included in other assets, classified as Level 3, are determined based on estimates made using available market interest rates as proxies, as no market data exists for these financial instruments. Management believes that its valuation technique is appropriate. On October 23, 2013, the Company sold its fair value Level 3 assets which included asset-backed commercial paper. The following table summarizes the change in fair value recorded:

	May 3, 2014	May 4, 2013
Financial assets		
Balance, beginning of period	\$ 24.8	\$ 23.8
Fair value gains, net of losses, recognized in net earnings	–	1.6
Disposals during the period	(24.8)	(0.6)
Balance, end of period	\$ –	\$ 24.8

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.

Cash flow hedges

The Company's cash flow hedges consist principally of foreign currency swaps. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Gains and losses are initially recognized directly in equity and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the year.

As of May 3, 2014, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of \$0.5 (2013 – \$ nil) and liabilities of \$ nil (2013 – \$0.2).

Cash flows from cash flow hedges are expected to flow over the next four years until fiscal 2018, and are expected to be recognized in net earnings over this period, and, in the case of foreign currency swaps, over the life of the related assets in which a portion of the initial cost is being hedged.

The gains and losses on ineffective portions of such derivatives are recognized immediately in net earnings for the year. During the year, the Company recognized \$ nil (2013 – \$ nil) directly into net earnings as a result of ineffective hedging contracts.

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. Bank indebtedness and approximately 54.2 percent (2013 – 31.4 percent) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings 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 3, 2014, the Company's average outstanding unhedged floating rate debt was \$1,060.5 (2013 – \$312.6). An increase (decrease) of 25 basis points would have impacted net earnings by \$1.9 (\$1.9) (2013 – \$0.5 (\$0.5)) and other comprehensive income by \$ nil (\$ nil) (2013 – \$ nil (\$ nil)) as a result of the Company's exposure to interest rate fluctuations on its hedged and unhedged floating rate debt.

Subsequent to the fourth quarter, Sobeyes entered into an interest rate swap to hedge the interest on a portion of the Company's Acquisition Facility (Note 32).

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 until the variability in cash flows being hedged is recognized in net earnings in future accounting periods.

The Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net earnings by \$ nil (\$ nil) (2013 – \$ nil (\$ nil)) and other comprehensive income by \$0.8 (\$0.8) (2013 – \$0.4 (\$0.4)) for foreign currency derivatives in place at year-end.

Subsequent to the fourth quarter, Sobeys entered into seven new Euro/Canadian dollar forward contracts (Note 32).

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 earnings by \$ nil (2013 – \$1.2) and other comprehensive income by \$2.1 (2013 – \$2.1).

28. SEGMENTED INFORMATION

The Board of Directors has determined that the primary segmental reporting format is by business segment, based on the Company’s management and internal reporting structure. The Company operates principally in two business segments: food retailing and investments and other operations. The food segment consists of distribution of food products in Canada. Inter-segment transactions are carried out at market prices.

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.

The sales and operating income generated by each of the group’s business segments are summarized as follows:

	May 3, 2014	May 4, 2013
Segmented sales		
Food retailing	\$ 20,994.9	\$ 17,402.7
Investments and other operations	5.2	9.8
	21,000.1	17,412.5
Sales to discontinued of operations	7.1	11.7
Total	\$ 20,993.0	\$ 17,400.8

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	May 3, 2014	May 4, 2013
Segmented operating income		
Food retailing	\$ 291.6	\$ 514.4
Investments and other operations		
Crombie REIT	19.2	13.7
Real estate partnerships	30.4	29.6
Other operations, net of corporate expenses	(12.7)	15.5
	36.9	58.8
Total	\$ 328.5	\$ 573.2

	May 3, 2014	May 4, 2013
Total assets by segment		
Food retailing	\$ 11,555.0	\$ 6,440.4
Investments and other operations (including discontinued operations)	683.0	700.0
Total	\$ 12,238.0	\$ 7,140.4

Segment operating income can be reconciled to group profit before discontinued operations as follows:

	May 3, 2014	May 4, 2013
Total operating income	\$ 328.5	\$ 573.2
Finance costs, net	133.2	55.4
Total	\$ 195.3	\$ 517.8

The investments and other operations consists of the investments, at equity in Crombie REIT, real estate partnerships, and various other corporate operations.

29. STOCK-BASED COMPENSATION

Deferred stock units

Members of the Board of Directors may elect to receive all or any portion of their fees 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' 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. 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 earnings. At May 3, 2014 there were 146,365 (2013 – 131,175) DSUs outstanding. During the 52 weeks ended May 3, 2014, the compensation expense was \$1.1 (2013 – \$2.6).

Performance share unit plan

Commencing in fiscal 2012, 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 the vesting date, each employee is entitled to receive a cash payout amount equal to the number of their vested PSUs multiplied by the market value of the Non-Voting Class A shares. At May 3, 2014, there were 39,600 (2013 – 41,461) PSUs outstanding. During the 52 weeks ended May 3, 2014, the compensation expense was \$2.7 (2013 – \$0.9).

The total carrying amount of liability for DSUs and PSUs at May 3, 2014 was \$12.1 (2013 – \$10.5)

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 Human Resources ("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 5 day average Empire Non-Voting Class A share value following the announcement of the Company's fiscal financial performance compared to the 5 day average following the announcement of the Company's fiscal financial performance of the preceding year. At May 3, 2014 there were 1,244,057 options (2013 – 1,515,535) outstanding and the carrying amount of the liability associated with these options was \$11.0 (2013 – \$17.6).

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 to 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 \$76.00. 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 3, 2014 there were 119,899 units outstanding and the carrying amount of the liability associated with these units was \$4.2.

Stock option plan

During fiscal 2014, the Company granted an additional 826,799 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The weighted average fair value of \$10.65 per option (2013 – \$8.23 per option) was determined using the Black Scholes model with the following weighted average assumptions:

Share price	\$78.90
Expected life	5.25 years
Risk-free interest rate	1.70%
Expected volatility (based on recent 5-year history)	15.1%
Dividend yield	1.36%

The compensation cost for the year ended May 3, 2014 was \$3.4 (2013 – \$0.6) 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 \$3.4 (2013 – \$0.6).

The outstanding options at May 3, 2014 were granted at prices between \$46.04 and \$82.31 and expire between June 2017 and March 2022. Stock option transactions during fiscal 2014 and 2013 were as follows:

	2014		2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	684,128	\$ 47.06	638,818	\$ 46.57
Granted	826,799	78.89	45,310	53.93
Purchased	(291,980)	46.89	–	–
Exercised	(240,940)	44.16	–	–
Forfeited	(43,641)	78.46	–	–
Balance, end of year	934,366	\$ 74.56	684,128	\$ 47.06
Stock options exercisable, end of year	101,289		468,450	

The following table summarizes information about stock options outstanding at May 3, 2014:

Year Granted	Options Outstanding			Options Exercisable	
	Number of Outstanding Options	Weighted Average Remaining Contractual Life ⁽¹⁾	Weighted Average Exercise Price	Number Exercisable at May 3, 2014	Weighted Average Exercise Price
2010	20,743	3.17	46.04	20,743	46.04
2011	75,885	4.17	51.99	56,914	51.99
2012	39,945	5.17	54.40	19,973	54.40
2013	14,635	6.17	53.93	3,659	53.93
2014	783,158	7.42	78.92	–	–
Total	934,366	6.94	\$ 74.56	101,289	\$ 51.32

(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.

30. RELATED PARTY TRANSACTIONS

The Company has related party transactions with Crombie REIT and key management personnel. The Company holds a 41.6 percent ownership interest in Crombie REIT and accounts for its investment using the equity method. As a result of the Company's subscription of Class B units and the conversion of Crombie REIT debentures during the current fiscal year, the Company's interest in Crombie REIT decreased from 42.8 to 41.6 percent.

On July 3, 2012, the Company purchased \$24.0 of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of \$60.0. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00% per annum and each \$1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$20.10 per unit.

On September 25, 2012, the Company converted convertible unsecured subordinated debentures with a face value of \$10.0 into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of \$13.8, resulting in a pre-tax gain of \$3.8.

On December 14, 2012, Crombie REIT closed a bought-deal public offering of units at a price of \$14.75 per unit. Concurrent with the public offering, the Company subscribed for \$24.5 of Class B units (which are convertible on a one-for-one basis into units of Crombie REIT).

During the 52 weeks ended May 4, 2013, the Company sold eight properties to Crombie REIT, seven of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of \$106.0, resulting in a pre-tax gain of \$15.0 which was recognized in the consolidated statements of earnings.

During the quarter ended November 3, 2012, the Company acquired a parcel of land from an associate in which the Company holds a 40.7 percent interest. Cash consideration paid for the land was \$7.6. The gain realized of \$1.6 was eliminated from property and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT agreed to indirectly acquire 70 properties included in the Canada Safeway acquisition for \$991.3. The sale-leaseback transaction closed effective November 3, 2013, immediately following the close of the Canada Safeway acquisition.

On closing of the acquisition of the 70 properties, the Company subscribed for \$150.0 of Class B units (which are convertible on a one-for-one basis into units of Crombie REIT.)

During the quarter ended February 1, 2014, Crombie REIT purchased from the Company their interest in certain retention leases for cash consideration of \$1.5 resulting in a pre-tax gain of \$0.4 which was recognized in the consolidated statement of earnings.

During the fourth quarter of fiscal 2014, Sobeys entered into a loan agreement with Crombie REIT to partially finance Sobeys' acquisition of a property in British Columbia. The \$11.9 loan bears interest at a rate of 6.0 percent and has no principal repayments until maturity on October 1, 2016. The Company also sold and leased back a property from Crombie REIT for cash consideration of \$10.2 which was equal to its carrying value. In addition, the Company exchanged properties with Crombie REIT during the fourth quarter of fiscal 2014. The properties exchanged were both located in Canmore, Alberta.

The Company rents premises from Crombie REIT, at amounts in management's opinion which approximate fair market value. 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. During fiscal year 2014, the aggregate net payments under these leases, which are measured at exchange amounts, were \$110.5 (2013 – \$80.6).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis.

At May 3, 2014, investments included \$24.6 (2013 – \$24.8) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of \$1.2 for the year ended May 3, 2014 (2013 – \$1.2). These amounts are included in other income in the consolidated statements of earnings.

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 was as follows:

	May 3, 2014	May 4, 2013
Salary, bonus and other short-term employee benefits	\$ 12.0	\$ 17.8
Post-employment benefits	3.8	3.8
Termination benefits	7.2	–
Share-based payments	10.7	1.8
Total	\$ 33.7	\$ 23.4

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.

31. 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.

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 3, 2014	May 4, 2013
Bank indebtedness	\$ –	\$ 6.0
Long-term debt due within one year	218.0	47.6
Long-term debt	3,279.9	915.9
Funded debt	3,497.9	969.5
Less cash and cash equivalents	(429.3)	(455.2)
Net funded debt	3,068.6	514.3
Shareholders' equity, net of non-controlling interest	5,700.5	3,724.8
Capital under management	\$ 8,769.1	\$ 4,239.1

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 3, 2014	May 4, 2013
Funded debt to total capital ⁽¹⁾	38.0%	20.7%
Funded debt to EBITDA ⁽²⁾	4.6x	1.1x
EBITDA to interest expense ⁽²⁾	5.7x	17.9x

(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 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 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 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 52 weeks). The Company was in compliance with these covenants during the year.

32. SUBSEQUENT EVENTS

Subsequent to the close of the fourth quarter, Sobeys entered into an amortizing interest rate swap for a notional amount of \$598.7 at a fixed interest rate of 1.4% effective May 12, 2014 to hedge the interest rate on a portion of the Company's Acquisition Facility (Note 16). The interest rate swap matures on December 31, 2015.

Sobeys also entered into seven Euro/Canadian dollar forward contracts subsequent to the close of the fourth quarter at an approximate Canadian dollar value 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 forward contracts have maturities ranging from May 29, 2014 to September 1, 2016.

On May 30, 2014 Crombie REIT announced it had 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 units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT will be reduced from 41.6% to 41.5%.

Eleven-Year Financial Review

Years Ended ⁽¹⁾	2014	2013	2012	2011
Financial Results (\$ in millions; except ROE)				
Sales	\$ 20,993.0	\$ 17,400.8	\$ 16,249.1	\$ 15,956.8
Operating income ⁽²⁾	328.5	573.2	534.3	525.7
Interest expense	133.2	55.4	59.9	75.4
Income taxes	36.3	136.4	122.3	122.0
Non-controlling interest	8.0	9.1	12.7	9.0
Adjusted net earnings from continuous operations ⁽²⁾⁽³⁾	383.1	356.8	322.7	303.2
Net earnings	235.4	379.5	339.4	400.6
Return on equity	8.4%	10.0%	10.6%	13.5%
Financial Position (\$ in millions)				
Total assets	12,238.0	7,140.4	6,913.1	6,518.6
Long-term debt (excluding current portion)	3,279.9	915.9	889.1	1,090.3
Shareholders' equity ⁽⁴⁾	5,700.5	3,724.8	3,396.3	3,162.1
Per Share Data on a Fully Diluted Basis (\$ per share)				
Adjusted net earnings from continuous operations ⁽³⁾	4.78	5.24	4.74	4.45
Net earnings	2.93	5.58	4.99	5.87
Dividends				
Non-Voting Class A shares	1.040	0.960	0.900	0.800
Class B common shares	1.040	0.960	0.900	0.800
Book value	61.75	54.82	49.98	46.48
Share Price, Non-Voting Class A Shares (\$ per share)				
High	83.24	68.63	62.99	59.12
Low	65.04	53.56	52.72	51.07
Close	68.63	68.58	57.62	54.14
Diluted weighted average number of shares outstanding (in millions)	80.2	68.1	68.0	68.2

(1) Fiscal year 2004 ended April 30th. Subsequent fiscal years ended the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc. Financial data for fiscal 2004 to 2010 with the exception of the balances noted for financial position for fiscal 2010 was prepared using CGAAP and has not been restated to IFRS. Fiscal 2005 and 2011 were 53-week years.

(2) 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.

(3) Adjusted net earnings, net of non-controlling interest, exclude items which are considered not indicative of underlying business operating performance.

(4) Shareholders' equity before non-controlling interest for fiscal 2010 to 2014.

	2010	2009	2008	2007	2006	2005	2004
	\$ 15,516.2	\$ 15,015.1	\$ 14,065.0	\$ 13,366.7	\$ 13,063.6	\$ 12,435.2	\$ 11,284.0
	479.7	466.2	472.6	431.1	491.4	463.7	422.8
	72.5	80.6	105.8	60.1	83.8	86.7	92.4
	99.1	115.4	125.9	116.9	153.1	131.2	111.0
	5.6	8.3	12.8	55.4	67.1	63.6	58.5
	284.5	261.7	242.8	200.1	202.0	182.9	163.3
	301.9	264.7	315.8	205.8	296.8	186.6	172.5
	10.7%	10.5%	14.0%	10.0%	16.2%	11.4%	11.6%
	6,176.8	5,891.1	5,732.9	5,241.5	5,051.5	4,929.2	4,679.7
	821.6	1,124.0	1,414.1	792.6	707.3	727.4	913.0
	2,832.9	2,678.8	2,382.3	2,131.1	1,965.2	1,709.0	1,567.6
	4.15	3.97	3.69	3.04	3.07	2.78	2.47
	4.40	4.02	4.80	3.13	4.51	2.83	2.61
	0.740	0.700	0.660	0.600	0.560	0.480	0.400
	0.740	0.700	0.660	0.600	0.560	0.480	0.400
	43.07	39.07	36.08	32.31	29.77	25.87	23.67
	53.95	55.05	55.19	45.25	44.35	38.00	29.50
	39.70	35.00	35.40	39.49	33.37	24.25	23.10
	52.98	49.00	39.25	42.33	43.29	36.66	26.65
	68.5	65.8	65.7	65.7	65.7	65.7	65.8

Glossary

ADJUSTED EBITDA

EBITDA excluding items which are considered not indicative of underlying business operating performance

ADJUSTED NET EARNINGS

Net earnings from continuing operations, net of non-controlling interest, excluding items which are considered not indicative of underlying business operating performance

ADJUSTED OPERATING INCOME

Operating income excluding items which are considered not indicative of underlying business operating performance

BOOK VALUE PER COMMON SHARE

Shareholders' equity, net of non-controlling interest, divided by total common shares outstanding

CAGR

Compound Annual Growth Rate

CAPITAL EXPENDITURES

Payments made for the acquisition of property, equipment and investment property purchases

EBIT

Earnings before interest and taxes (also called "operating income")

EBITDA

EBIT plus depreciation and amortization of intangibles. Net earnings from continuing operations, before finance costs (net of finance income), income taxes, and depreciation and amortization of intangibles

EBITDA MARGIN

EBITDA divided by sales

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

HEDGE

A financial instrument used to manage foreign exchange, interest rate, energy or other commodity risk by making a transaction which offsets the existing position

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

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

OPERATING INCOME

Also called earnings before interest and taxes ("EBIT"). Calculated as net earnings from continuing operations before finance costs (net of finance income) and income taxes

OPERATING INCOME MARGIN

Operating income divided by sales

PRIVATE LABEL

A brand of products that is marketed, distributed and owned by the Company

RETURN ON EQUITY ("ROE")

Net earnings for the year attributable to owners of the parent divided by average shareholders' equity

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

WEIGHTED AVERAGE NUMBER OF SHARES

The number of Non-Voting Class A shares plus Class B common shares outstanding adjusted to take into account the time the shares are outstanding in the reporting period

Shareholder and investor information

EMPIRE COMPANY LIMITED

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Stellarton, Nova Scotia
B0K 1S0
Telephone: (902) 755-4440
Fax: (902) 755-6477
www.empireco.ca

INVESTOR RELATIONS AND INQUIRIES

Shareholders, analysts and investors should direct their financial inquiries or requests to:

Stewart H. Mahoney, CFA
Vice President, Treasury & Investor Relations
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.

AFFILIATED COMPANY WEB ADDRESSES

www.sobeyscorporate.com

TRANSFER AGENT

CST Trust Company
Investor Correspondence
P.O. Box 700 Station B
Montréal, Québec
H3B 3K3
Telephone: (800) 387-0825
E-mail: inquiries@canstockta.com

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 (800) 387-0825 to eliminate the multiple mailings.

DIVIDEND RECORD AND PAYMENT DATES FOR FISCAL 2015

Record Date	Payment Date
July 15, 2014	July 31, 2014
October 15, 2014*	October 31, 2014*
January 15, 2015*	January 31, 2015*
April 15, 2015*	April 30, 2015*

*Subject to approval by the Board of Directors

OUTSTANDING SHARES

As of June 26, 2014

Non-Voting Class A shares	58,068,709
Class B common shares, voting	34,260,763

SHAREHOLDERS' ANNUAL GENERAL MEETING

September 11, 2014, 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

52-WEEK AVERAGE DAILY TRADING VOLUME (TSX: EMP.A)

241,681

BANKERS

Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo-Mitsubishi
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank
TD Bank Financial Group

SOLICITORS

Stewart McKelvey
Halifax, Nova Scotia

AUDITORS

Grant Thornton, LLP
Halifax, Nova Scotia

Thank you

Special thanks to the employees who participated in the annual report photography showing how our business comes to life each and every day.



**We're the
better food
destination for
Canadians to:**

1. Enjoy great quality **FRESH FOOD** and flavours.
2. **SAVE TIME** while eating well every day.
3. Make the best choices to enjoy a **HEALTHY LIFE**.
4. Choose foods that support our **SUSTAINABLE PLANET**.
5. Eat well within an **AFFORDABLE BUDGET**.
6. Know that everything we sell has a **100% SATISFACTION GUARANTEE**.
7. Recognize that Sobeys contributes to their **LOCAL COMMUNITY**.



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