A bold vision of transformation

ANNUAL REPORT 2017

EMPIRE
COMPANY LIMITED

COMPANY PROFILE

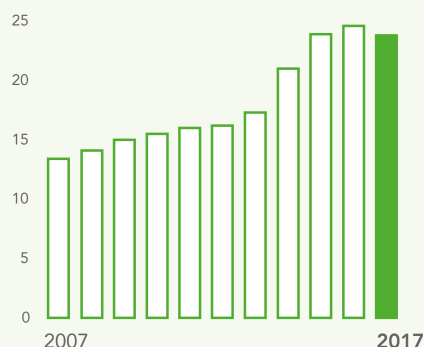
Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing and related real estate. With approximately $23.8 billion in sales and $8.7 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 125,000 people.

Financial highlights

($ in millions, except per share amounts)	**52 weeks ended May 6, 2017**	53 weeks ended May 7, 2016	52 weeks ended May 2, 2015[1]
Sales	**$23,806.2**	$24,618.8	$23,928.8
EBITDA[2]	**777.2**	(1,944.7)	1,224.9
Adjusted EBITDA[2]	**796.9**	1,161.4	1,321.9
Operating income (loss)	**333.0**	(2,418.5)	742.4
Net earnings (loss)[3]	**158.5**	(2,131.0)	419.0
per share (fully diluted)[4]	**0.58**	(7.78)	1.51
Adjusted net earnings[2], [3]	**191.3**	410.2	511.0
per share (fully diluted)	**0.70**	1.50	1.84
Book value per share	**13.41**	13.34	21.61
Dividends per share	**0.41**	0.40	0.36

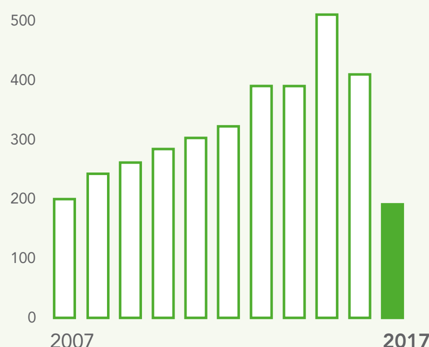
Sales
($ in billions)

CAGR[5]
5.9%



Adjusted net earnings[2],[3]
($ in millions)

CAGR[5]
-0.4%



Dividends
($ per share)

CAGR[5]
7.4%

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of earnings (loss).
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of the Management's Discussion and Analysis ("MD&A").
(3) Net of non-controlling interest.
(4) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.
(5) Compound annual growth rate.

YEAR IN REVIEW

Message from the Chair

James M. Dickson
Chair

Strong governance, strategic focus and effective leadership remain at the forefront of Empire's approach to good governance and will ensure that we continue our proud history of 110 years in food retailing.

By any measure, fiscal 2017 was a difficult year for Empire and Sobeys. Our overall financial results were disappointing. Our employees, franchisees and vendors were increasingly frustrated and we have had to make many difficult decisions that are affecting the lives of our employees and their families. However, I am pleased to report that our Board observed positive and stabilizing trends as we closed fiscal 2017.

Effective leadership

Last July, in response to a disappointing fiscal 2016, the Board instituted a leadership change and appointed François Vimard, then Empire's Chief Financial and Administrative Officer, as Interim Chief Executive Officer. Under François' leadership, we started the work to prioritize and advance the most critical elements of our strategy to ensure that we meet the needs and expectations of our customers and see the return of long-term profitable growth. We also initiated an orderly succession process to identify a permanent leader, devoting considerable time and energy to succession planning and recruiting the necessary talent to make sure that we have the right team to lead our Company.

In January 2017, after an extensive international search, we announced the appointment of Michael Medline as the new President & Chief Executive Officer of Empire Company Limited and its wholly-owned subsidiary Sobeys Inc. The Board was unanimous in its conclusion that Michael is the right choice to lead our Company as we address the strategic, structural and operational changes necessary to create long-term value for all of our stakeholders. Michael is an outstanding Canadian retailer who brings a passion for the customer experience and a proven ability to drive strong operating and financial performance within national organizations and across multiple brands.

Strategic focus

Our Board of Directors is responsible for strong stewardship and ensuring the successful execution of our strategy. Our CEO and his leadership team recently laid out a comprehensive three-year plan to transform our Company. The Board supports Michael's bold vision and his priorities for fiscal 2018. Michael has kept us apprised as he has made changes to his leadership team and developed the plan for turning around our business, growing our bottom line and outpacing our competition, while re-engaging our customers in the process.

We look forward to working with Michael and his new leadership team over the coming year. You can read about the development of our new strategic plan, and Project Sunrise specifically, beginning on page 4.

YEAR IN REVIEW

Strong governance

Empire's board is highly engaged, qualified, experienced and diverse, and a majority of our directors are independent. The slate of directors proposed for election at this year's annual general meeting is made up of 13 directors with experience in the food business, retail, finance, law and consumer businesses. In addition, we are fortunate to have five Sobey family members who have served in senior level positions within Empire or Sobeys proposed for election as directors.

Your Board and our leadership team remain committed to diversity and gender balance at all levels of our Company. We are very pleased that 30% of our nominees for election as directors for the upcoming year are women.

In January 2017, we welcomed another seasoned retailer to our Board. Martine Reardon brings over 30 years of retail marketing experience, including four years as Chief Marketing Officer at Macy's Inc. where she was responsible for macys.com, social, mobile and digital media. Martine's appointment increases our Board's diversity and deepens its skill and experience in retail while recognizing the growing importance of a digital presence in our business.

With thanks

This year we saw Empire's long-serving director, Rob Dexter, retire from the Board after 29 years of service, including the past 12 years as Chair. I would like to thank Rob for his outstanding service, so appropriately captured by Donald R. Sobey, Chair Emeritus of Empire: "Rob has played a pivotal role in some of the most important decisions leading to the Company's significant growth. His outstanding contributions, wise counsel and commitment to strong governance have been the foundation of his service both as a director and as Chair of the Board."

I would also like to extend our appreciation to Kevin Lynch who is not standing for re-election in September. We thank him for his guidance and insight over the past four years, particularly as Chair of the Corporate Governance Committee.

Two long-serving executives are also retiring. François Vimard, Executive Vice President, is retiring after a distinguished 22-year career and serving as Interim President & CEO. François provided strong leadership on enhancements to our distribution network, and served as Chief Financial and Administrative Officer and as a trustee of Crombie REIT. Yves Laverdière, President, Québec business unit, is retiring following 21 years with the Company. Yves helped build the IGA business in Québec into the province's leading food retailer. I would like to thank François and Yves for their service and commitment throughout the years and wish them every success in retirement.

Sobeys grew from the simple desire of J. W. Sobey in 1907 to bring quality food to his neighbours. Built community by community, Sobeys has thrived for five generations with great people providing great service, and today we serve Canadians in over 900 communities coast-to-coast. Strong governance, strategic focus and effective leadership remain at the forefront of Empire's approach to good governance and will ensure that we continue our proud history of 110 years in food retailing.

I would like to thank all of the people throughout Empire's and Sobeys' operations, and our franchisees and affiliates, for all of their hard work and dedication during these challenging times as well as for their commitment to our future success.

I also extend my sincere appreciation to the Sobey family for their support and to all of Empire's shareholders for your trust and confidence in this great organization 110 years strong.

Sincerely,

signed "James M. Dickson"

James M. Dickson
Chair
Empire Company Limited

June 28, 2017

Celebrating history

This year we celebrate our history – Sobeys 110 and Canada 150 – by honouring our fellow Canadians at the Canadian Museum of Immigration at Pier 21 on the historic Halifax waterfront.

Through the support of the Sobey Foundation, the Sobey Wall of Honour features two storeys of bricks inscribed with the names of families and individuals who passed through the halls at Pier 21 between 1928 and 1971 to enter Canada and start their new lives in this country. It is estimated that one in five Canadians can trace their roots back through Pier 21. The Sobey Wall of Honour is just one of the ways the Sobey legacy of giving back endures.

YEAR IN REVIEW

A Conversation with Michael Medline

Our challenges as a Company over the past couple of years have been well documented in the media and investment community, as well as the subject of much internal conversation at Empire. Michael Medline, President & CEO of Empire Company Limited and its wholly-owned subsidiary Sobeys Inc., talks candidly about the business and our bold plans to thrill our customers, build our brands and excite our shareholders.[1]

Michael Medline
President & Chief Executive Officer

Q Michael, let's start with why you decided to join Empire?

A I always admired this Company from afar. In fact, in a speech a couple of years back, I referred to Sobeys as one of a small handful of 'national champions' of retail in this country. This is a great Company that is proudly Canadian, has a unique culture, a rich history of serving the food needs of Canadians for 110 years, and is supported by the Sobey family's long-standing commitment to the business. So when the opportunity to join the Empire team presented itself, I considered it an honour and a privilege.

Q What were your initial impressions when you started in your role?

A Since I joined the Company in January, I've been travelling the country, walking stores with our leadership teams, talking to employees at town hall and other meetings, and assessing our assets, strategy and opportunities. I can tell you we have great locations throughout most of the country, strong leaders, an engaged team, as well as a Board and controlling shareholder who are truly committed to creating long-term shareholder value.

These strengths provide a solid foundation for our business. I'm very excited to embark on this journey, and meet the challenge of thrilling our customers and delivering growth for this Company.

Q When you think about the future for Empire and Sobeys, what does it look like?

A I think about what this Company can and will be most every waking hour of my day. I want to be the best, most innovative and customer-focused retailer in Canada. I want customers to think of us first when they do their food shopping. And I want our employees to feel the pride of working for a Company that is making a difference in the lives of its customers.

I've asked our employees on many occasions to think about how it's going to feel when we get some wind in our sails, when we are delivering on that promise to our customers and putting solid numbers up on the board. I can tell you, there's no feeling like it.

Are we there yet? Not at all, we have a lot of hard work in front of us. But we have a proud history we can build upon, a loyal and committed workforce who can make it happen and a plan to get us there.

(1) This discussion contains forward-looking information. For more information see the section entitled "Forward-Looking Information" on page 9.

YEAR IN REVIEW

Q You've said that the future requires nothing less than the transformation of the business and to move forward with confidence. Why is that?

A Clearly our results have been extremely disappointing and our employees and vendors have been frustrated by both the complexity of our business and decision-making processes. So when I speak about the need for a transformation of our business what I mean is that we must greatly simplify our structure, take costs out, re-engage with customers, grow sales and gain market share. There are so many opportunities to improve. It's going to also mean making a lot of tough decisions, especially involving our employees, but it is absolutely the right thing to do if we are to thrive in the future.

Q Are you going to get at this important work through 'Project Sunrise'?

A Sunrise is simply the moniker we've given to the important work I just referred to in the previous question. It's a comprehensive roadmap and well-conceived plan of attack that is going to allow us to create a focused, high-performing organization where accountabilities are defined, priorities are clear, and tools and core processes are the same across the country. This is really about eliminating from the business all of the complexity that has slowed us down.

But in addition to the absolute necessity in eliminating complexity from our business, we have also declared war on costs. We are a high-cost competitor in the marketplace and you don't have to be the CEO to know that is not the position you want to be in. We are laser-focused on achieving $500 million in annualized cost savings which will allow us to move quickly and efficiently, reinvest savings into marketing to thrill our customers, and importantly improve our bottom line. These are tangible benefits for both our customers and our shareholders. We will get at a lot of those costs by operating like a $24 billion company instead of five $5 billion companies, which is really how we have gone to market over the past years.

Taking costs and complexity out of the business frees us up to move from defence to offense. At every customer touch point, in every way we choose to compete, we will deliver value and communicate the compelling reasons why Canadians should be shopping with us and that will keep them coming back.

We'll do this by investing in our brand and expanding the impact of our marketing – especially digital – and finding ways to maintain our 'regional touch' in communities across the country. That's one of the things that has made Sobeys the iconic Canadian food retailer we are.

Q How are you managing this transformation to ensure you deliver on the commitments you have made?

A As you would expect regarding a change of this magnitude, we have put in place a solid governance structure to manage the transformation and deliver on the commitments we made to our shareholders and our employees. We have a fully staffed Transformation Management Office, led by Clinton Keay, as well as a special committee of the Board of Directors that provides Board oversight for the transformation. Executing this transformation, while ensuring we continue to run the existing business, remains my main focus and that of my leadership team.

But just as importantly, I believe managing this transition means ensuring our organization remains focused and engaged. So while I am chomping at the bit to move quickly on a number of other initiatives that will allow us to innovate and better respond to the needs of our customers, I know that I cannot overburden the organization with a long list of other priorities that will take our focus and resources away from our critical focus: Project Sunrise.

Q How does the transformation affect store operations and capital spending?

A The transformation is actually designed to benefit our stores so that they can better serve the needs of our customers, but the organizational changes will not impact the stores or distribution centres directly. If we simplify our structure, operate more efficiently and make better decisions faster, we're ultimately helping our stores and better serving our customers.

We're also putting our capital expenditure plans under the microscope because, frankly, we have not earned the right to spend at the levels of the past few years. We're scrutinizing every dollar of shareholders' capital that we spend, and see plenty of opportunities in the square footage we have today to generate superior returns.

Q You like to use the word 'velocity' in your communications. Why is speed so important to you?

A I talk about velocity because the retail landscape, and food retailing in particular, is experiencing such immense change. Disruptors are reshaping food retailing and the risks are significant if we are unable to move with speed, adapt to new concepts, innovate, or respond to the needs of the customer and how they tell us they want to shop with us.

In the context of Project Sunrise, velocity is even more critical because the faster we can simplify our structure and take $500 million in costs out of our business, the sooner we can move from defence to offense – where we are innovating, where we are playing a leading role in shaping food retail and where we are winning in the marketplace.

Four strategic priorities

We've set four priorities for our fiscal 2018 game plan:

1.

Reset our structure and move to a functionally led organizational structure

We have talented and experienced people at Sobeys who want to do the right thing and make a contribution to our success. One of our greatest frustrations internally stems from the way we're organized. Setting a new, efficient operating model that drives our business on a national basis, while acknowledging differences across regions, will help all of us to do just that.

2.

Execute quick wins to take cost out

Some good work has been done to identify a few areas where we can quickly take out costs – the low hanging fruit. For example, we're streamlining and standardizing our approach to payments and store labour, and looking at tools to better allocate hours where it will make the biggest difference for our customers. We're also advancing projects on goods not for resale to capture savings by making smart choices about how and what we buy, looking at everything from grocery bags to chicken domes to cleaning products for our stores.

3.

Understand our customer

Our ability to understand our customers and communicate effectively with them has been sorely missing. We really need to work on understanding our customers to set the foundation of our brand strategy going forward. Qualitative and quantitative research, customer data insights, competitive analysis and valuable feedback from our store teams are some of the ways we're building our baseline understanding of our customers. As part of this priority, we surveyed over 6,000 of our customers from coast-to-coast this year, and are using what we learned to develop a customer-led strategy for each banner that differentiates us, covers all touch points and tracks our success on key customer metrics.

4.

Fix the West

It's clear that we damaged our relationship with customers in the West. We're devising a strategy to welcome our customers back and address our top and bottom line performance. We're also closely monitoring progress and will expand solutions nationally where we are gaining traction. Realizing operating savings is a key objective as we make changes, and all of the things we are going to do over the coming year will directly support this priority.

Q You've built an executive team that includes both Company veterans and a couple of new faces. Was that important to you?

A Really important. First of all, Empire has some of the best talent I have seen in Canadian retail – especially our executive team. I also think it's critical in any organization to introduce new thinking and new approaches in order to challenge the status quo, innovate and continually grow. I cannot tell you how thrilled I was to have Mike Vels join us as CFO in June. Mike is a highly accomplished executive, one of the country's most respected CFOs and a highly results-oriented leader. I am confident that we will identify and hire a great new head of marketing, which I consider an incredibly important role as we work to connect and communicate a compelling story to our customers that will keep them coming back.

Q Do you see Sobeys culture changing?

A There are certainly some aspects of our culture that need to change if we are going to be nimble and adapt to the ever-changing realities of food retailing. Having said that, there is a lot about our culture that has served as a beacon for our Company and our employees over the 110 years we have been in business. It is our culture that will allow us to navigate and ultimately succeed on the transformation journey we are now on. Our culture is rooted in a commitment to putting our customers first, providing great service, and supporting the communities we serve. I guarantee you those cultural attributes aren't about to change. They will remain foundational to everything we do.

Q Do you have any final comments?

A We have scale, talent and a solid plan to return the Company to long-term, profitable growth. We also have a great Board of Directors and an outstanding Chair in Jim Dickson. Our future is very bright. This year, Canada is celebrating its 150th birthday and Sobeys is marking 110 years in the food retailing business. We cherish our rich heritage and values, but it is more important than ever that we move forward quickly and decisively to ensure that Sobeys' best days are still to come.

Sincerely,

signed "Michael Medline"

Michael Medline
President & Chief Executive Officer
Empire Company Limited

June 28, 2017

THE SOBEY FOUNDATION

Sobeys is a proud Canadian family business with roots dating back 110 years to an immigrant family that settled in rural Nova Scotia. In our nation's 150th year, we're proud to partner with the Canadian Museum of Immigration at Pier 21 to celebrate the Canadians from all over the world who have helped build Canada and our business. Through this philanthropic partnership, Sobeys' employees are contributing personal and family histories to the National Stories Archive at the Canadian Museum of Immigration, making their families' journeys accessible for future generations to share and learn from. To read these stories please visit www.Sobeys110.com.

One such submission to the National Archives at Pier 21 came from Archel Imperial, the Deli Manager at Winchester Foodland. Archel is featured on the cover of this Annual Report and her compelling immigration story is also shared here.

"I am Archel Imperial, I have two sisters and five younger brothers. We grew up up in a countryside in the Philippines province of Aklan in Malinao.

When I was 10 years old I started to worked in the farm, planting rice manually under the heat of the sun from morning until afternoon making P40 pesos/$1.25 Canadian dollar a day in order to have money to buy clothes and school allowance. Some days we woke up in the morning 4 o'clock am getting ready to go to the corn field for harvesting, we walked about 15 kilometers to get there, while the other kids are still sleeping. We never encounter playing barbies or any fancy toys, we were content in what we have at home.

We also helped our parents carrying the harvested products like rice and corn from the field to the house.

After my high school years, my dream was to become an Engineer, but its because of poverty, my parents cannot afford to send us to school. I decided to take Bachelor of Science in Home Technology, its affordable and in public University with the help of my sister, aunt and parents as well.

In 2005 I gave birth to my son. Everything did not go well, my parents were so disappointed, they expected too high from me. I felt I let them down.

Two years after (son 2 years old) I decided to work out of country to give my son a good future. I worked in Hong Kong for over two years taking care of new born twins and doing household chores. I was working 18 hours a day and one 8 hours day off per week making $500 Canadian/month. Every payday I only saved allowance for my self, the rest will be sent home to my family to support my brothers education as well as my sons needs.

In 2009, I came to Canada to work as a Live in Caregiver (nanny). I am blessed to have a very supportive employer. After my contract, I started to work at Winchester Foodland in bakery and deli department. One Year later, I was promoted to Deli Manager. Everything was all so new to me, the only thing I could think of, was how to look after my customers, the inventory and all the other aspects of running the department correctly. A few years after starting, I met my Deli Specialist Team and the new store owner Dan Pettigrew, They helped me become successful in my department. I worked really hard to reach my goals.

In 2015, my son and I reunited. I was able to pick him up from the Philippines and brought home in Canada. He is my life and strength. Finally, after eight years of working all of my hardship paid off, all my brothers finished all their degrees that they wanted. Two of them finished Bachelor of Science in Electrical Technology, Bachelor of Science in Electronic Technology, Bachelor of Science in Civil Engineering (license) and Bachelor of Science in Marine Transportation. I build duplex house for my parents to keep them safe if there's any floods and bought a van for family use.

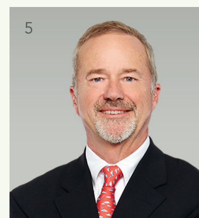
Lastly, above all I would like to thanks to our almighty father for giving me strength and courage, to my parents, in-laws and fiancee for looking after my son while I was away, co-workers and friends for always there for me, To all Canadian Immigration Team for giving me opportunity to work and live to this beautiful country and most of all to Sobeys and Foodland Family for giving me a chance to share my story. If its not for you, I wont be able to reach my goals and dreams come true!

Happy 110th year Anniversary Sobeys and 150th Year Anniversary Canada.

God bless you all!"

GOVERNANCE

Directors of Empire Company Limited



1 **Cynthia Devine**(2)(5)(7)
Toronto, Ontario
Director since 2013
Chief Financial Officer, Maple Leaf Sports & Entertainment

2 **James M. Dickson**(9)
Halifax, Nova Scotia
Director since 2015
Counsel, Stewart McKelvey

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

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

5 **William Linton**(4)(5)(7)
Toronto, Ontario
Director since 2015
Corporate director

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

7 **Michael Medline**
Toronto, Ontario
Director since 2017
President & Chief Executive Officer, Empire Company Limited and Sobeys Inc.

8 **Martine Reardon**
New York, New York, USA
Director since 2017
Corporate director

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

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

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

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

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

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

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

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

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The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 13 and 52 weeks ended May 6, 2017 compared to the 14 and 53 weeks ended May 7, 2016. It should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the 52 weeks ended May 6, 2017, and the 53 weeks ended May 7, 2016. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The audited consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD"). These consolidated financial statements include the accounts of Empire and its subsidiaries and structured entities ("SEs") which the Company is required to consolidate. The information contained in this MD&A is current to June 28, 2017, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

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

- The Company's expectations regarding the impact of Project Sunrise, including expected annualized cost savings, efficiencies resulting from this transformation initiative, and the expected timing and amount of one-time costs, which could be impacted by several factors, including the time required by the Company to complete the realignment as well as the factors identified under the heading "Risk Management";
- The Company's expectations relating to the effects of operational challenges primarily in Western Canada and sales erosion across the store network, which may be impacted by a number of factors including the effectiveness of future mitigating strategies employed and continued competitive intensity;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in market prices;
- The Company's assessment that its operational and capital structure is sufficient to meet its ongoing business requirements, which could be impacted by changes in the current economic environment;
- Management's belief that a downgrade in its credit ratings will not impede liquidity required for current contractual obligations, day-to-day operations or long-term outlook, which could be impacted by the necessity to re-finance existing debt, access to capital markets and fluctuations in interest rates; and
- The Company's expectation that its cash and cash equivalents on hand, unutilized credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment.

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

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

OVERVIEW OF THE BUSINESS

Empire's key businesses and financial results are segmented into two separate reportable segments: (1) Food retailing and (2) Investments and other operations. With approximately $23.8 billion in sales and $8.7 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 125,000 people.

FOOD RETAILING

Empire's Food retailing segment is carried out through Sobeys, a wholly-owned subsidiary. Proudly Canadian, with headquarters in Stellarton, Nova Scotia, Sobeys has been serving the food shopping needs of Canadians for 110 years, since 1907. Sobeys owns, affiliates or franchises more than 1,500 stores in all 10 provinces under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo., Thrifty Foods and Lawton's Drug Stores as well as more than 350 retail fuel locations. Sobeys' purpose is to help Canadians *Eat Better, Feel Better and Do Better*.

Strategic Imperatives(1)

In the fourth quarter of fiscal 2017, the Company launched Project Sunrise, a comprehensive three year transformation intended to simplify the organizational structure and reduce costs. The transformation is expected to deliver approximately $500 million in annualized cost savings by fiscal 2020 that will allow the Company to grow its earnings and re-invest in the business, growing both its sales and earnings. The organizational structure changes will create a nationally managed company with the ability to leverage its $24 billion national scale.

Including the two Project Sunrise elements, the Company is focused on four primary initiatives:

(i) Organizational Structure

Changes in the Company's organizational structure include collapsing multiple, independent regions into a largely national, functionally-led structure. This will simplify the way the Company conducts business and will result in a reduced workforce. Management has taken the first step in transitioning to the new organizational structure with the appointment of a new senior leadership team. The intention of the transformation initiative is to address the complex organizational structure which has resulted in significant duplication and lack of clear, defined accountabilities. These complexities add not only unnecessary costs, but prevent nimble and responsive decision making to support the needs of the customers and capitalize on changes in the marketplace.

(ii) Cost Reduction

Management has undertaken a detailed assessment of cost reduction opportunities available to the Company, including benchmarking
its costs against other businesses, and is executing against a phased plan to permanently reduce its cost base. Early progress on the cost initiatives is progressing well and it is expected that initial savings will be reflected in results in the third quarter of fiscal 2018. Cost reductions will be sourced from reductions in headcount arising from organizational structure changes and process improvement, targeting specific enterprise-wide efficiencies and productivity initiatives and simplifying how the Company collaborates with vendors while leveraging its purchasing scale as a $24 billion nationally managed Company.

(iii) Customer Focus

Significant work is required to better understand Sobeys' brands banner positioning, customers and marketing initiatives as these are critical to the success of any retailer and recent approaches to customers have been disappointing. Management is undertaking a comprehensive review of its customers, the relative positioning of its categories and store banners and will develop and implement a strategy that will improve its proposition to Canadian grocery customers, allowing the Company to compete more effectively and grow both its top line sales and margins.

(iv) West Business Unit

Challenges faced in the Western business unit have resulted in significant decreases in sales and profitability, arising from the integration of the Canada Safeway acquisition. In the short term, management has been focused on improving store execution and promotional mix and the results in the fourth quarter were more positive as comparative sales improved and were more consistent with rates realized across the rest of the business.There is a significant amount of improvement still required to return this business to acceptable levels of profitability.

The full redesign and execution of the organizational structure is expected to be completed by the end of calendar 2017. As a result of this transformation initiative, the Company incurred costs of $15.8 million in the fourth quarter of fiscal 2017. In total, the Company expects to incur approximately $200 million in one-time costs associated with severance, relocation, consulting and minor system developments, the bulk of which will be incurred in the first half of fiscal 2018.

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

Other Significant Items

Real Estate Divestitures

On June 29, 2016, the Company and its wholly-owned subsidiaries completed an agreement with Crombie Real Estate Investment Trust ("Crombie REIT") to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land. Crombie REIT also invested approximately $58.8 million in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. See the "Related Party Transactions Section" of this MD&A for further detail.

Manufacturing Sales Adjustments

The Company disposed of certain manufacturing facilities in fiscal 2015 and entered into long-term supply agreements that contain minimum purchase volume requirements that require adjustments in prices paid to vendors if these minimum commitments are not met. As at May 6, 2017, the provision for adjustments related to these minimum purchase requirements is $12.0 million. The Company has so far paid $55.2 million related to these long-term supply agreements where minimum purchase volume requirements for calendar 2016 were not met.

Distribution Centre Restructuring

Costs of $4.3 million and $9.6 million were incurred for the 13 and 52 weeks ended May 6, 2017 (2016 – $2.2 million and $7.9 million) related to distribution centre restructuring.

Impairments of Goodwill and Long-Lived Assets

In fiscal 2016, management determined there were indicators of impairment in the West business unit as the result of significant negative trends in operating results of the Sobeys West operating segment and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. In the fourth quarter of fiscal 2016, the Company recorded impairments of long-lived assets and goodwill of $10.9 million and $1,430.5 million, respectively. Including impairments recorded earlier in fiscal 2016, total impairments of long-lived assets and goodwill for fiscal 2016 was $3,027.1 million. At the end of fiscal 2016, there was no remaining goodwill within the West business unit.

INVESTMENTS AND OTHER OPERATIONS

Empire's investments and other operations segment, as of May 6, 2017, included:

1. A 41.5 percent (40.3 percent fully diluted) equity accounted interest in Crombie REIT, an open-ended Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 281 income-producing properties across Canada, comprising approximately 19.1 million square feet with a strategy to own, operate and develop a portfolio of high quality grocery and drug store anchored shopping centres, freestanding stores and mixed use developments primarily in Canada's top urban and suburban markets; and
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 39.0 percent equity accounted interest in GDC Investments 4, L.P., a 42.1 percent equity accounted interest in GDC Investments 6, L.P., a 39.0 percent equity accounted interest in GDC Investments 7, L.P., a 37.1 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar").

STRATEGIC DIRECTION

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

The Company is focused on restoring core strengths in food retailing and related real estate by directing its energy and capital towards growing long-term sustainable value through cash flow, income growth and cost reductions. While our core businesses are admired by Canadians and well established, they also offer Empire geographical diversification across Canada, which is considered by management to be a source of strength. Going forward, the Company intends to direct its resources towards the most promising opportunities such as the transformation initiative, Project Sunrise, improving the Company's proposition to customers and restoring profitability in the West business unit.

SUMMARY RESULTS – FOURTH QUARTER

($ in millions, except per share amounts)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016	$ Change	% Change
Sales	**$ 5,798.9**	$ 6,283.2	$ (484.3)	(7.7)%
Gross profit[1][2]	**1,420.9**	1,546.2	(125.3)	(8.1)%
EBITDA[2]	**171.7**	(1,047.2)	1,218.9	116.4%
Adjusted EBITDA[2]	**193.9**	269.6	(75.7)	(28.1)%
Operating income (loss)	**61.4**	(1,160.2)	1,221.6	105.3%
Finance costs, net	**27.7**	36.3	(8.6)	(23.7)%
Income tax expense (recovery)	**1.4**	(256.7)	258.1	100.5 %
Non-controlling interest	**2.8**	2.8	–	–
Net earnings (loss)[3]	**29.5**	(942.6)	972.1	103.1%
Adjusted net earnings[2][3]	**50.2**	95.3	(45.1)	(47.3)%
Basic earnings per share				
Net earnings (loss)[3][4]	**$ 0.11**	$ (3.47)	$ 3.58	
Adjusted net earnings[3]	**$ 0.18**	$ 0.35	$ (0.17)	
Basic weighted average number of shares outstanding (in millions)	**271.7**	271.7		
Diluted earnings per share				
Net earnings (loss)[3][4]	**$ 0.11**	$ (3.47)	$ 3.58	
Adjusted net earnings[3]	**$ 0.18**	$ 0.35	$ (0.17)	
Diluted weighted average number of shares outstanding (in millions)	**271.7**	271.7		
Dividend per share	**0.1025**	0.1000		

(% of sales)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016
Gross profit	**24.5%**	24.6%
EBITDA	**3.0%**	(16.7)%
Adjusted EBITDA	**3.3%**	4.3%
Operating income	**1.1%**	(18.5)%
Net earnings[3]	**0.5%**	(15.0)%
Adjusted net earnings[3]	**0.9%**	1.5%

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

Sales

All sales are generated by the Food retailing segment.

The decrease in sales for the 13 weeks ended May 6, 2017 was primarily the result of:

- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million in sales;
- Retail food price deflation; and
- Price sensitivity by consumers and their continued shift to improved value.

During the 13 weeks ended May 6, 2017, same-store sales[1] decreased 1.1 percent and excluding the impact of fuel sales decreased 1.6 percent from the same period last year.

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

Gross Profit

The decrease in gross profit during the 13 weeks ended May 6, 2017 was a result of the factors impacting sales. As a percentage of sales, gross profit remained relatively flat compared to the same quarter last year, and increased by 80 basis points compared to the third quarter in fiscal 2017. This is primarily the result of focused execution along with the positive impact of seasonality.

EBITDA

EBITDA increased in the 13 weeks ended May 6, 2017, largely due to impairments recorded for goodwill and long-lived assets in the prior year.

Adjusted EBITDA decreased in the 13 weeks ended May 6, 2017, mainly as a result of the previously mentioned factors affecting sales, as well as increases in selling and administrative expenses, including increased labour costs and promotional spending. Selling and administrative expenses as a percentage of sales increased due to the impact of the lower sales.

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	$ Change
EBITDA	**$ 171.7**	$ (1,047.2)	$ 1,218.9
Adjustments:			
Costs related to Project Sunrise	**15.8**	–	
Distribution centre restructuring	**4.3**	2.2	
Network rationalization (reversals)	**3.0**	(13.9)	
Historical organizational realignment reversals	**(0.9)**	(0.4)	
Impairments of goodwill and long-lived assets	**–**	1,296.8	
Loss on disposal of manufacturing facilities	**–**	32.1	
	22.2	1,316.8	(1,294.6)
Adjusted EBITDA	**$ 193.9**	$ 269.6	$ (75.7)

Operating Income

For the 13 weeks ended May 6, 2017, Sobeys' contribution to operating income increased primarily as a result of the impairments of goodwill and long-lived assets recorded in the prior year. This was slightly offset by an increase in selling and administrative expenses in the current year and an additional week of operations in fiscal 2016.

Operating income from the Investment and other operations segment decreased primarily as a result of a group of properties sold by Crombie REIT in their first quarter of fiscal 2016 and the reversals of deferred gains in the prior year.

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	$ Change
Consolidated operating income (loss)			
Sobeys contribution	**$ 52.5**	$ (1,184.9)	$ 1,237.4
Investment and other operations			
Crombie REIT[1]	**$ 7.7**	$ 18.1	$ (10.4)
Real estate partnerships[2]	**4.9**	2.8	2.1
Other operations, net of corporate expenses	**(3.7)**	3.8	(7.5)
	$ 8.9	$ 24.7	$ (15.8)
	$ 61.4	$ (1,160.2)	$ 1,221.6

(1) 41.5 percent equity accounted interest in Crombie REIT (May 7, 2016 – 41.5 percent interest).
(2) Interests in Genstar.

Finance Costs

For the fourth quarter of fiscal 2017, net finance costs decreased from the same period last year. Interest coverage[1] in the fourth quarter increased to 2.4 times from (39.2) times in the fourth quarter of fiscal 2016, as a result of increased operating income. Excluding the impairments of goodwill and long-lived assets, interest coverage would have been 4.6 times in the prior year.

Income Taxes

The Company's effective income tax rate for the fourth quarter was 4.2 percent compared with 21.5 percent in the same period last year. Excluding the impact of the fiscal 2016 impairments, the effective income tax rate would have been 23.0 percent in the same period last year. The decrease is primarily attributed to the re-measurement of the Company's deferred income tax provision completed during the quarter and the impact of capital gain transactions undertaken.

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

Net Earnings

For the 13 weeks ended May 6, 2017, the increase in net earnings was primarily a result of impairments of goodwill and long-lived assets and a provision related to the previous sale of manufacturing facilities.

($ in millions, except per share amounts)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016	$ Change
Net earnings (loss)[1]	$ 29.5	$ (942.6)	$ 972.1
EPS[2][3] (fully diluted)	$ 0.11	$ (3.47)	$ 3.58
Adjustments[4]:			
Costs related to Project Sunrise	11.3	–	
Intangible amortization associated with the Canada Safeway acquisition	4.7	4.8	
Distribution centre restructuring	3.1	1.6	
Network rationalization (reversals)	2.2	(10.1)	
Historical organizational realignment reversals	(0.6)	(0.3)	
Impairments of goodwill and long-lived assets	–	1,016.3	
Loss on disposal of manufacturing facilities	–	25.6	
	20.7	1,037.9	(1,017.2)
Adjusted net earnings[1]	$ 50.2	$ 95.3	$ (45.1)
Adjusted EPS[2] (fully diluted)	$ 0.18	$ 0.35	$ (0.17)
Diluted weighted average number of shares outstanding (in millions)	271.7	271.7	

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

OPERATING RESULTS – FULL YEAR

				2017 Compared to 2016	
($ in millions, except per share amounts)	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015[1]	$ Change	% Change
Sales	$ 23,806.2	$ 24,618.8	$ 23,928.8	$ (812.6)	(3.3)%
Gross profit	5,707.2	5,957.6	5,962.1	(250.4)	(4.2)%
EBITDA	777.2	(1,944.7)	1,224.9	2,721.9	140.0%
Adjusted EBITDA	796.9	1,161.4	1,321.9	(364.5)	(31.4)%
Operating income (loss)	333.0	(2,418.5)	742.4	2,751.5	113.8%
Finance costs, net	118.0	137.4	155.1	(19.4)	(14.1)%
Income tax expense (recovery)	42.5	(441.3)	150.4	483.8	109.6%
Non-controlling interest	14.0	16.4	17.9	(2.4)	(14.6)%
Net earnings (loss)[2]	158.5	(2,131.0)	419.0	2,289.5	107.4%
Adjusted net earnings[2]	191.3	410.2	511.0	(218.9)	(53.4)%
Basic earnings per share					
Net earnings (loss)[2][3]	$ 0.58	$ (7.78)	$ 1.51	$ 8.36	
Adjusted net earnings[2]	$ 0.70	$ 1.50	$ 1.84	$ (0.80)	
Basic weighted average number of shares outstanding (in millions)	271.9	273.9	277.0		
Diluted earnings per share					
Net earnings (loss)[2][3]	$ 0.58	$ (7.78)	$ 1.51	$ 8.36	
Adjusted net earnings[2]	$ 0.70	$ 1.50	$ 1.84	$ (0.80)	
Diluted weighted average number of shares outstanding (in millions)	272.0	274.0	277.2		
Dividend per share	0.41	0.40	0.36		

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

(% of sales)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015
Gross profit	**24.0%**	24.2%	24.9%
EBITDA	**3.3%**	(7.9)%	5.1%
Adjusted EBITDA	**3.3%**	4.7%	5.5%
Operating income (loss)	**1.4%**	(9.8)%	3.1%
Net earnings (loss)(2)	**0.7%**	(8.7)%	1.8%
Adjusted net earnings(2)	**0.8%**	1.7%	2.1%

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

Sales

All sales are generated by the Food retailing segment.

The decrease in sales for the 52 weeks ended May 6, 2017 was primarily the result of:

- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million in sales;
- Retail food price deflation;
- Negative impact of merchandising and promotional strategies in Western Canada; and
- Price sensitivity by consumers and their continued shift to improved value.

During the 52 weeks ended May 6, 2017, same-store sales decreased 2.1 percent and excluding the impact of fuel sales decreased 2.2 percent from the same period last year. Excluding fuel and the retail West business unit, same-store sales decreased 1.2 percent.

Gross Profit

The decrease in gross profit during the 52 weeks ended May 6, 2017 continued to be the result of the factors impacting sales, as well as significant investments made in pricing, particularly in the West business unit.

EBITDA

EBITDA increased in the 52 weeks ended May 6, 2017, largely due to impairments recorded for goodwill and long-lived assets in the prior year.

Adjusted EBITDA decreased in the 52 weeks ended May 6, 2017, mainly as a result of the previously mentioned factors affecting sales, as well as increases in selling and administrative expenses, including increased labour costs and promotional spending. Selling and administrative expenses as a percentage of sales has increased due to the impact of lower sales.

($ in millions)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	$ Change
EBITDA	**$ 777.2**	$ (1,944.7)	$ 2,721.9
Adjustments:			
Costs related to Project Sunrise	**15.8**	–	
Distribution centre restructuring	**9.6**	7.9	
(Gain) loss on disposal of manufacturing facilities	**(7.5)**	71.8	
Historical organizational realignment costs	**3.4**	13.2	
Network rationalization reversals	**(1.6)**	(13.9)	
Impairments of goodwill and long-lived assets	**–**	3,027.1	
	19.7	3,106.1	(3,086.4)
Adjusted EBITDA	**$ 796.9**	$ 1,161.4	$ (364.5)

Operating Income

For the 52 weeks ended May 6, 2017, operating income increased primarily as a result of the impairments of goodwill and long-lived assets recorded in the prior year. This was slightly offset by an increase in selling and administrative expenses in the current year and an additional week of operations in fiscal 2016.

Finance Costs

During fiscal 2017, net finance costs decreased primarily due to debt repayments in fiscal 2017. Interest coverage increased to 3.2 times from (21.2) times in the prior year as a result of increased operating income. Excluding the impairments of goodwill and long-lived assets, interest coverage for fiscal 2016 would have been 5.3 times.

Income Taxes

The effective income tax rate for the 52 weeks ended May 6, 2017 increased to 19.8 percent compared to 17.3 percent in the 53 weeks ended May 7, 2016. Excluding the impact of the fiscal 2016 impairments, the effective income tax rate, would have been 27.0 percent in the same period last year. The change is attributed to capital gain transactions, the sale and lease back of retail properties to Crombie REIT on a tax deferred basis as well as changes in legislation related to eligible capital expenditures in the current year.

Net Earnings

For the 52 weeks ended May 6, 2017, net earnings, net of non-controlling interest, were primarily impacted by the reasons noted in the EBITDA section.

($ in millions, except per share amounts)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	$ Change
Net earnings (loss)[1]	**$ 158.5**	$ (2,131.0)	$ 2,289.5
EPS[2] (fully diluted)	**$ 0.58**	$ (7.78)	$ 8.36
Adjustments[3]:			
Intangible amortization associated with the Canada Safeway acquisition	**18.8**	19.1	
Costs related to Project Sunrise	**11.3**	–	
Distribution centre restructuring	**6.9**	5.8	
(Gain) loss on disposal of manufacturing facilities	**(5.5)**	57.4	
Historical organizational realignment costs	**2.5**	9.6	
Network rationalization reversals	**(1.2)**	(10.1)	
Impairments of goodwill and long-lived assets	**–**	2,459.4	
	32.8	2,541.2	(2,508.4)
Adjusted net earnings[1]	**$ 191.3**	$ 410.2	$ (218.9)
Adjusted EPS (fully diluted)	**$ 0.70**	$ 1.50	$ (0.80)
Diluted weighted average number of shares outstanding (in millions)	**272.0**	274.0	

(1) Net of non-controlling interest.

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

(3) All adjustments are net of income taxes.

FINANCIAL PERFORMANCE BY SEGMENT

FOOD RETAILING

The following is a review of Empire's Food retailing segment's financial performance for the 52 weeks ended May 6, 2017 compared to the 53 weeks ended May 7, 2016 and 52 weeks ended May 2, 2015.

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

($ in millions)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015	2017 Compared to 2016 $ Change	2017 Compared to 2016 % Change
Sales	**$ 23,806.2**	$ 24,618.8	$ 23,928.8	$ (812.6)	(3.3)%
Gross profit	**5,707.2**	5,957.6	5,962.5	(250.4)	(4.2)%
EBITDA	**703.2**	(2,036.0)	1,121.9	2,739.2	134.5%
Adjusted EBITDA	**722.9**	1,070.1	1,218.9	(347.2)	(32.4)%
Operating income (loss)	**259.3**	(2,509.2)	639.9	2,768.5	110.3%
Net earnings (loss)[1]	**112.7**	(2,193.3)	343.5	2,306.0	105.1%
Adjusted net earnings[1]	**145.5**	347.9	435.5	(202.4)	(58.2)%

(1) Net of non-controlling interest.

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

($ in millions)	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016[(1)]	52 Weeks Ended May 2, 2015[(1)]
Sales (decline) growth	**(3.3)%**	2.9%	14.2%
Same store sales (decline) growth	**(2.1)%**	(0.2)%	1.4%
Return on equity[(2)]	**4.9%**	(55.4)%	7.1%
Funded debt to total capital[(2)]	**39.5%**	46.0%	31.5%
Funded debt to adjusted EBITDA[(2)]	**2.4x**	2.1x	1.9x
Property, equipment, and investment property purchases[(3)]	**$470.8**	$616.2	$497.2

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows and the consolidated balance sheets.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

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

Sales

The decrease in sales for the 52 weeks ended May 6, 2017 was primarily the result of:

- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million in sales;
- Retail food price deflation;
- Negative impact of merchandising and promotional strategies in Western Canada; and
- Price sensitivity by consumers and their continued shift to improved value.

During the 52 weeks ended May 6, 2017, same-store sales decreased 2.1 percent and excluding the impact of fuel sales decreased 2.2 percent from the same period last year. Excluding fuel and the retail West business unit, same-store sales decreased 1.2 percent.

Gross Profit

The decrease in gross profit during the 52 weeks ended May 6, 2017 continued to be the result of the factors impacting sales, as well as significant investments made in pricing, particularly in the West business unit.

EBITDA

EBITDA increased in the 52 weeks ended May 6, 2017, largely due to impairments recorded for goodwill and long-lived assets in the prior year.

Adjusted EBITDA decreased in the 52 weeks ended May 6, 2017, mainly as a result of the previously mentioned factors affecting sales, as well as increases in selling and administrative expenses, including increased labour costs and promotional spending. Selling and administrative expenses as a percentage of sales has increased due to the impact of lower sales.

($ in millions)	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016	$ Change
EBITDA	**$ 703.2**	$ (2,036.0)	$ 2,739.2
Adjustments:			
Costs related to Project Sunrise	**15.8**	–	
Distribution centre restructuring	**9.6**	7.9	
(Gain) loss on disposal of manufacturing facilities	**(7.5)**	71.8	
Historical organizational realignment costs	**3.4**	13.2	
Network rationalization reversals	**(1.6)**	(13.9)	
Impairments of goodwill and long-lived assets	**–**	3,027.1	
	19.7	3,106.1	(3,086.4)
Adjusted EBITDA	**$ 722.9**	$ 1,070.1	$ (347.2)

Operating Income

For the 52 weeks ended May 6, 2017, operating income increased primarily as a result of the impairments of goodwill and long-lived assets recorded in the prior year. This was slightly offset by an increase in selling and administrative expenses in the current year and an additional week of operations in fiscal 2016.

Net Earnings

For the 52 weeks ended May 6, 2017, net earnings, net of non-controlling interest, were primarily impacted by the reasons noted in the EBITDA section.

($ in millions, except per share amounts, net of tax)	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016	$ Change
Net earnings (loss)[1]	**$ 112.7**	$ (2,193.3)	$ 2,306.0
Adjustments[2]:			
Intangible amortization associated with the Canada Safeway acquisition	**18.8**	19.1	
Costs related to Project Sunrise	**11.3**	–	
Distribution centre restructuring	**6.9**	5.8	
(Gain) loss on disposal of manufacturing facilities	**(5.5)**	57.4	
Historical organizational realignment costs	**2.5**	9.6	
Network rationalization reversals	**(1.2)**	(10.1)	
Impairments of goodwill and long-lived assets	**–**	2,459.4	
	32.8	2,541.2	(2,508.4)
Adjusted net earnings[1]	**$ 145.5**	$ 347.9	$ (202.4)

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

INVESTMENTS AND OTHER OPERATIONS

($ in millions)	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016	$ Change
Operating income (loss)			
Crombie REIT[1]	**$ 41.5**	$ 38.9	$ 2.6
Real estate partnerships[2]	**35.1**	46.7	(11.6)
Other operations, net of corporate expenses	**(2.9)**	5.1	(8.0)
	$ 73.7	$ 90.7	$ (17.0)

(1) 41.5 percent equity accounted interest in Crombie REIT (May 7, 2016 – 41.5 percent interest).
(2) Interests in Genstar.

Operating Income

For the 52 weeks ended May 6, 2017, the decrease in operating income from Investments and other operations is attributed to:

- A decrease in operating income from Genstar primarily due to the sale of two real estate partnerships by Genstar Development Partnership II in the third quarter of fiscal 2016; and
- A decrease in operating income from other operations compared to the prior year due to property sales by Crombie REIT in fiscal 2016 that resulted in the realization of previously deferred gains.

Investment Portfolio

At May 6, 2017, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	May 6, 2017			May 7, 2016		
($ in millions)	**Fair Value**	**Carrying Value**	**Unrealized Gain**	Fair Value	Carrying Value	Unrealized Gain
Investment in associates						
Crombie REIT[1]	**$ 883.6**	**$ 459.1**	**$ 424.5**	$ 786.0	$ 366.8	$ 419.2
Canadian real estate partnerships[2]	**143.0**	**143.0**	**–**	148.5	148.5	–
U.S. real estate partnerships[2]	**36.8**	**36.8**	**–**	50.2	50.2	–
Investment in joint ventures						
Canadian Digital Cinema Partnership[2]	**9.5**	**9.5**	**–**	9.4	9.4	–
	$ 1,072.9	**$ 648.4**	**$ 424.5**	$ 994.1	$ 574.9	$ 419.2

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of May 5, 2017.
(2) Assumes fair value equals carrying value.

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 2017				Fiscal 2016			
($ in millions, except per share amounts)	**Q4 (13 Weeks) May 6, 2017**	Q3 (13 Weeks) Feb. 4, 2017	Q2 (13 Weeks) Nov. 5, 2016	Q1 (13 Weeks) Aug. 6, 2016	Q4 (14 Weeks) May 7, 2016	Q3 (13 Weeks) Jan. 30, 2016	Q2 (13 Weeks) Oct. 31, 2015	Q1 (13 Weeks) Aug. 1, 2015
Sales	**$ 5,798.9**	$ 5,889.8	$ 5,930.9	$ 6,186.6	$ 6,283.2	$ 6,027.2	$ 6,059.2	$ 6,249.2
EBITDA[1]	**171.7**	179.4	187.8	238.3	(1,047.2)	(1,467.9)	256.3	314.1
Operating income (loss)	**61.4**	68.6	76.4	126.6	(1,160.2)	(1,589.8)	136.0	195.5
Net earnings (loss)[2]	**$ 29.5**	$ 30.5	$ 33.1	$ 65.4	$ (942.6)	$ (1,365.7)	$ 68.5	$ 108.8
Per share information, basic								
Net earnings (loss)[2][3]	**$ 0.11**	$ 0.11	$ 0.12	$ 0.24	$ (3.47)	$ (5.03)	$ 0.25	$ 0.39
Basic weighted average number of shares outstanding (in millions)	**271.7**	271.1	271.6	271.7	271.7	271.7	275.2	277.0
Per share information, diluted								
Net earnings (loss)[2][3]	**$ 0.11**	$ 0.11	$ 0.12	$ 0.24	$ (3.47)	$ (5.03)	$ 0.25	$ 0.39
Diluted weighted average number of shares outstanding (in millions)	**271.7**	271.7	272.2	271.7	271.7	271.8	275.5	277.5

(1) EBITDA is reconciled to net earnings (loss) for the current and comparable period in the "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

(2) Net of non-controlling interest.

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

When reviewing financial results for comparable periods:

- The results of the first and second quarter for fiscal 2017 compared to the same period in fiscal 2016 were lower due to a number of factors including challenges faced in the West business unit and downward sales trends in most of the store network driven by price sensitivity and customers' continued shift to improved value.
- The results of the third quarter of fiscal 2017 reflect decreased sales, but an increase in operating income and net earnings, net of non-controlling interest, compared to the same quarter in fiscal 2016. This is due to goodwill and long-lived asset impairments recorded in the third quarter of fiscal 2016, of $1,592.6 million and $137.7 million, respectively, as discussed in the "Overview of the Business" section of this MD&A.
- The results of the fourth quarter of fiscal 2017 reflect decreased sales, but an increase in operating income and net earnings, net of non-controlling interest, compared to the same quarter in fiscal 2016. The decrease in sales in the fourth quarter primarily relates to the additional week of operations in fiscal 2016. The increase in operating income and net earnings, net of non controlling interest, was the result of the impairment charges the Company recorded in the fourth quarter in fiscal 2016, totaling $10.9 million for long-lived assets and $1,285.9 million for goodwill, as previously discussed.

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

LIQUIDITY AND CAPITAL RESOURCES

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

($ in millions)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016[1]	$ Change	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016	$ Change
Cash flows from operating activities	**225.8**	242.4	(16.6)	**708.5**	896.8	(188.3)
Cash flows used in investing activities	**(73.3)**	(174.4)	101.1	**(35.7)**	(622.6)	586.9
Cash flows used in financing activities	**(148.5)**	(97.3)	(51.2)	**(730.2)**	(305.4)	(424.8)
Increase (decrease) in cash and cash equivalents	**$ 4.0**	$ (29.3)	$ 33.3	**$ (57.4)**	$ (31.2)	$ (26.2)

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

Operating Activities

The decrease in cash flows from operating activities for the 13 and 52 weeks ended May 6, 2017 was primarily the result of an increase in net earnings, offset by fluctuations in non-cash working capital.

Free Cash Flow

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

($ in millions)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016[2]	$ Change	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016	$ Change
Cash flows from operating activities	**$ 225.8**	$ 242.4	$ (16.6)	**$ 708.5**	$ 896.8	$ (188.3)
Add: proceeds on disposal of property, equipment, and investment property	**36.8**	11.6	25.2	**425.7**	142.5	283.2
Less: property, equipment, and investment property purchases	**(91.8)**	(173.9)	82.1	**(460.7)**	(616.5)	155.8
Free cash flow	**$ 170.8**	$ 80.1	$ 90.7	**$ 673.5**	$ 422.8	$ 250.7

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows.

Free cash flow for the 13 weeks ended May 6, 2017 increased from the same period last year primarily as a result of the following factors:

- Increased proceeds from real estate transactions; and
- Decreased purchases of property, equipment and investment property, due to planned reduction of capital expenditures.

The increase in free cash flow for the 52 weeks ended May 6, 2017 was mainly the result of the following factors:

- Increased proceeds on disposal of property, equipment and investment property primarily due to the aforementioned agreement entered into with Crombie REIT;
- Decreased purchases of property, equipment and investment property; partially offset by
- Decreased operating activities as previously discussed.

Investing Activities

The decrease in cash used in investing activities during the 13 weeks ended May 6, 2017 was primarily due to:

- Decreased purchases of property, equipment and investment property;
- Decreased loans and other receivables;
- Decreased business acquisitions; and
- Increased proceeds on disposal of property, equipment and investment property.

The decrease in cash used in investing activities during the 52 weeks ended May 6, 2017 was mainly due to a sale and leaseback agreement entered into with Crombie REIT as previously discussed. This transaction increased cash proceeds on disposal of property, equipment and tenant inducements from Crombie REIT.

The table below outlines the number of stores Sobeys invested in during the 13 and 52 weeks ended May 6, 2017 compared to the 14 and 53 weeks ended May 7, 2016.

# of stores	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016
Opened/relocated/acquired	**16**	20	**66**	102
Expanded	**–**	3	**8**	18
Rebannered/redeveloped	**7**	1	**25**	22
Closed – normal course of operations	**11**	15	**40**	37
Closed – network rationalization	**–**	1	**–**	3

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 6, 2017, by type:

Square feet (in thousands)	**13 Weeks Ended May 6, 2017**	52 Weeks Ended May 6, 2017
Opened	**262**	677
Relocated	**98**	248
Acquired	**–**	43
Expanded	**–**	22
Closed – normal course of operations	**(104)**	(468)
Net change	**256**	522

At May 6, 2017, Sobeys' square footage totaled 39.2 million, a 1.3 percent increase compared to 38.7 million square feet operated at May 7, 2016.

Financing Activities

The cash used in financing activities increased during the 13 weeks ended May 6, 2017 from the same period of fiscal 2016, primarily due to repayments, net of advances, on the Company's credit facilities.

The cash used in financing activities increased during the 52 weeks ended May 6, 2017, from the same period of fiscal 2016, due to repayments made, net of advances, on the Company's credit facilities and the repayment of $300.0 million on Sobeys' senior unsecured notes.

Employee Future Benefit Obligations

For the 52 weeks ended May 6, 2017, the Company contributed $9.9 million (2016 – $8.9 million) to its registered defined benefit pension plans. As a result of actuarial valuations completed in fiscal 2017, contributions in fiscal 2018 are expected to increase to $23.3 million.

Guarantees and Commitments

The following table presents the Company's commitments and other obligations that will come due over the next five fiscal years as at May 6, 2017.

($ in millions)	2018	2019	2020	2021	2022	Thereafter	Total
Commitments							
Long-term debt[1]	$ 118.2	$ 512.6	$ 23.1	$ 133.4	$ 6.5	$ 1,033.5	$ 1,827.3
Finance lease liabilities[2]	15.8	7.3	6.2	4.1	2.6	16.0	52.0
Third-party operating leases, as lessee[3]	257.7	240.6	222.5	200.9	176.7	986.3	2,084.7
Related party operating leases, as lessee[3]	148.0	143.7	142.5	142.9	142.7	1,645.6	2,365.4
Contractual obligations	539.7	904.2	394.3	481.3	328.5	3,681.4	6,329.4
Operating leases, as lessor	(20.6)	(19.3)	(17.2)	(15.3)	(14.1)	(95.6)	(182.1)
Contractual obligations, net	$ 519.1	$ 884.9	$ 377.1	$ 466.0	$ 314.4	$ 3,585.8	$ 6,147.3

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

For further information on guarantees and commitments, please see Note 15 and Note 24 of the audited consolidated financial statements for the 52 weeks ended May 6, 2017.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)	May 6, 2017	May 7, 2016[1][2]	May 2, 2015[1][2]
Shareholders' equity, net of non-controlling interest	**$ 3,644.2**	$ 3,623.9	$ 5,986.7
Book value per common share[3]	**$ 13.41**	$ 13.34	$ 21.61
Long-term debt, including current portion	**$ 1,870.8**	$ 2,367.4	$ 2,284.1
Funded debt to total capital[3]	**33.9%**	39.5%	27.6%
Net funded debt to net total capital[3]	**31.3%**	36.7%	24.9%
Funded debt to adjusted EBITDA[3]	**2.3x**	2.0x	1.7x
Adjusted EBITDA to interest expense[3]	**7.7x**	10.2x	9.6x
Current assets to current liabilities	**0.9x**	1.0x	0.9x
Total assets	**$ 8,695.5**	$ 9,138.5	$ 11,497.2
Total non-current financial liabilities	**$ 2,502.1**	$ 2,735.9	$ 2,942.0

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated balance sheets.
(2) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of this MD&A for further detail.
(3) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

The funded debt to adjusted EBITDA ratio increased to 2.3 times compared to 2.0 times at May 7, 2016. The decrease in the adjusted EBITDA to interest expense coverage ratio (7.7 times versus 10.2 times at May 7, 2016) was the result of a lower trailing 12-month adjusted EBITDA ($796.9 million versus $1,161.4 million at May 7, 2016) and a lower trailing 12-month interest expense ($103.1 million versus $114.0 million at May 7, 2016).

The Company's ratio of current assets to current liabilities decreased to 0.9 times from 1.0 times at May 7, 2016.

During the 13 weeks ended May 6, 2017, Dominion Bond Rating Service ("DBRS") downgraded Sobeys' credit rating from BBB (low) with a negative trend to BB (high) with a negative trend, while Standard and Poor's ("S&P") remained unchanged at BB+ with a stable outlook. Management does not believe these credit rating changes will materially impact the ability to finance the normal operations of the Company.

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 and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring various sources of funds are diversified by term to maturity and source of credit. Subsequent to year end, Sobeys entered into a new, senior, unsecured non-revolving credit facility for $500.0 million that is intended to be used to repay long-term debt due in calendar 2018.

The Company has provided covenants to its lenders in support of various financing facilities. The Company was in compliance with all covenants for the 13 and 52 weeks ended May 6, 2017.

For additional information on Empire's long-term debt, see Note 15 of the Company's audited annual consolidated financial statements for the 52 weeks ended May 6, 2017.

Shareholders' Equity

The Company's share capital was comprised of the following on May 6, 2017:

	Number of Shares	
Authorized	May 6, 2017	May 7, 2016
2002 Preferred shares, par value of $25 each, issuable in series	**991,980,000**	991,980,000
Non-Voting Class A shares, without par value	**768,105,849**	768,105,849
Class B common shares, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding ($ in millions)	Number of Shares	May 6, 2017	May 7, 2016
Non-Voting Class A	**173,537,901**	**$ 2,037.8**	$ 2,037.8
Class B common	**98,138,079**	**7.3**	7.3
Shares held in trust	**(555,409)**	**(10.7)**	–
Total		**$ 2,034.4**	$ 2,045.1

The increase in shareholders' equity, net of non-controlling interest, of $20.3 million in fiscal 2017 primarily reflects the increase in retained earnings. Book value per common share was $13.41 at May 6, 2017 compared to $13.34 at May 7, 2016.

The Company's share capital on May 6, 2017 compared to the same period in the last fiscal year is shown in the table below.

(Number of Shares)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016
Non-Voting Class A shares		
Issued and outstanding, beginning of year	**173,537,901**	178,862,211
Issued during year	**–**	41,442
Repurchase of capital stock	**–**	(5,365,752)
Issued and outstanding, end of year	**173,537,901**	173,537,901
Shares held in trust, beginning of year	**–**	–
Purchased for future settlement of equity settled plans	**(555,409)**	–
Shares held in trust, end of year	**(555,409)**	–
Issued and outstanding, net of shares held in trust, end of year	**172,982,492**	173,537,901
Class B common shares		
Issued and outstanding, beginning of year	**98,138,079**	98,138,079
Issued during year	**–**	–
Total Issued and outstanding, end of year	**98,138,079**	98,138,079

The outstanding options at May 6, 2017 were granted at prices between $15.60 and $30.87 and expire between May 2018 and June 2024 with a weighted average remaining contractual life of 5.59 years. Stock option transactions during fiscal 2017 and 2016 were as follows:

	2017			2016		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	**3,655,322**	**$**	**25.94**	3,364,995	$	24.86
Granted	**1,642,700**		**20.40**	753,845		30.13
Exercised	**–**		**–**	(135,712)		20.09
Forfeited	**(348,159)**		**23.51**	(327,806)		26.90
Balance, end of year	**4,949,863**	**$**	**24.27**	3,655,322	$	25.94
Stock options exercisable, end of year	**3,334,369**			2,206,342		

The 4,949,863 stock options outstanding as at the fiscal year ended May 6, 2017 (May 7, 2016 – 3,655,322) represents 1.8 percent (May 7, 2016 – 1.3 percent) of the outstanding Non-Voting Class A and Class B common shares.

During fiscal 2017, the Company paid common dividends of $111.3 million (2016 – $109.4 million) to its equity holders. This represents a payment of $0.41 per share (2016 – $0.40 per share) for common share holders.

During the second quarter of fiscal 2017, the Company established a trust fund to facilitate the purchase of Non-Voting Class A shares for the future settlement of vested units under the Company's equity settled stock-based compensation plans. Contributions to the trust fund and the Non-Voting Class A shares purchased are held by CST Trust Company as trustee. The trust fund is an SE and as such the accounts of the trust fund are included in the consolidated financial statements of the Company. During fiscal 2017, the trust fund purchased 555,409 Non-Voting Class A shares for $10.7 million. These Non-Voting Class A shares have been recorded as a reduction to both capital stock and the weighted average number of common shares outstanding.

As at June 26, 2017 the Company had Non-Voting Class A and Class B common shares outstanding of 173,537,901 and 98,138,079, respectively, as well as 4,923,911 options to acquire in aggregate 4,923,911 Non-Voting Class A shares.

Share Split

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

Normal Course Issuer Bid ("NCIB")

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

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

On March 14, 2016, the Company filed a notice of intent with the TSX to purchase for cancellation up to 5,206,137 Non-Voting Class A shares, representing approximately three percent of those outstanding. Purchases were to commence on March 17, 2016, and terminate on March 16, 2017. Empire did not repurchase any Non-Voting Class A shares since the date of notice.

ACCOUNTING STANDARDS AND POLICIES

The audited consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 7, 2016 with the exception of the following:

Changes to Accounting Policies Adopted During Fiscal 2017

(i) Presentation of Financial Statements

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing clarifying guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments became effective during the first quarter of fiscal 2017 and had no material impact on the Company's consolidated financial statements.

(ii) Income Taxes

In November 2016, the IFRS Interpretations Committee ("IFRIC") issued its agenda decision addressing the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax in accordance with IAS 12, "Income Taxes". IFRIC noted that an intangible asset with an indefinite useful life does not mean infinite life, nor does it mean the expected manner of recovery of the carrying amount would result solely through sale. Therefore, in applying IAS 12, an entity must determine its expected manner of recovery of the carrying value of the intangible asset with an indefinite life and should reflect the tax consequences that follow from that expected manner of recovery. Previously, Empire measured deferred taxes on temporary differences arising from indefinite life intangible assets using capital gains rates on the basis that the assets will be recovered through its disposition. As a result of the IFRIC agenda decision, the Company has changed its accounting policy to measure deferred taxes at the income tax rate applicable to ordinary taxable income expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company adopted this change on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" and the impact on the consolidated financial statements for the 52 weeks ended May 6, 2017 was an increase to deferred tax liabilities of $33.6 million (2016 – $33.6 million), an increase to retained earnings of $2.9 million (2016 – $2.9 million), with a corresponding adjustment to goodwill of $36.5 million (2016 – $36.5 million).

Future Standards

(i) Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative Amendments to IAS 7 "Statement of Cash Flows". These amendments require entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash and non-cash-flow changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments will occur in fiscal 2018 and is not expected to have a significant impact on current disclosures of the Company.

(ii) Financial Instruments

In July 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, IFRS 9 further establishes an expected credit loss impairment model where it is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also introduces a new hedge accounting model that aligns with corresponding risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is applied prospectively. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(iii) Revenue

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

In April 2016, the IASB published clarifications to IFRS 15 which addresses three topics (identifying performance obligations, principle versus agent considerations and licensing) as well as providing some transition relief for modified and completed contracts. The implementation timelines for these clarifications are consistent with IFRS 15.

(iv) Leases

In January 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases" and related interpretations. IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15 "Revenue from Contracts with Customers", but the Company does not intend to early adopt IFRS 16. For leases where the Company is the lessee it has the option of adopting a full retrospective approach or a modified retrospective approach with various optional practical expedients available.

The Company expects the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. New assets and liabilities will be recognized for the Company's operating property and equipment leases. Additional changes due to the nature and timing of expenses related to the operating leases will be incurred as the Company will recognize depreciation for right-of-use assets and finance expense on lease liabilities replacing straight-line lease expense. No significant impacts are expected where the Company is a lessor or sublessor.

The Company is currently evaluating the impact of these standards on its consolidated financial statements. The Company will disclose additional information including transition methods and estimated qualitative financial impacts during fiscal 2018.

Critical Accounting Estimates

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

Impairments of Goodwill and Long-Lived Assets

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

Goodwill is subject to impairment testing on an annual basis. The Company performed its annual assessment of goodwill impairment during its third quarter. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are indicators that the recoverable amount of long-lived assets may be less than their carrying amount.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pension Benefit Plans and Other Benefit Plans

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

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

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

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income. The key assumptions are disclosed in Note 17 of the Company's financial statements.

Income Taxes

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

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

Valuation of Inventories

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

Provisions

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

Business Acquisitions

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

Supply Agreements

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

Disclosure Controls and Procedures

Management of the Company, which includes the President & 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. The CEO and CFO have evaluated the effectiveness of the Company's DC&P and based on that evaluation, the CEO and CFO have concluded that the Company's DC&P was effective as at May 6, 2017 and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control over Financial Reporting

Management of the Company, which includes the CEO and 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 "*Internal Control Integrated Framework (2013)*" published by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO have evaluated the effectiveness of the Company's ICFR and based on that evaluation, the CEO and CFO have concluded that the Company's ICFR was effective as at May 6, 2017 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 5, 2017 and ended May 6, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

RELATED PARTY TRANSACTIONS

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

The Company leased certain real property from Crombie REIT during the year at amounts which in management's opinion approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value based on the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases, which are measured at exchange amounts, totaled approximately $195.8 million (2016 – $164.9 million).

Crombie REIT provides administrative and management services to the Company on a fee for service basis pursuant to a Management Agreement effective January 1, 2016. The Management Agreement replaces the previous arrangement where charges incurred were on a cost recovery basis.

At May 6, 2017, investments included $25.1 million (2016 – $24.7 million) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of $1.2 million for the year ended May 6, 2017 (2016 – $1.2 million).

On June 29, 2016, Sobeys and its wholly-owned subsidiaries closed an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Crombie REIT also invested approximately $58.8 million in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. In addition to cash, Crombie REIT issued to a subsidiary of Sobeys $93.4 million in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. The subsidiary of Sobeys subsequently sold its Class B LP units to Empire on a tax deferred basis. Total net cash proceeds to the Company and its wholly-owned subsidiaries from these transactions with Crombie REIT were $323.8 million, resulting in a pre-tax loss of $0.8 million. Proceeds from the transactions were used to repay the senior unsecured notes.

On July 29, 2016, Sobeys, through a wholly-owned subsidiary, sold and leased back an additional property from Crombie REIT for cash consideration of $26.4 million. This resulted in a pre-tax gain of $2.1 million. Sobeys also purchased one property from Crombie REIT for $9.1 million.

During 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 bore interest at a rate of 6.0 percent and had no principal repayments. On May 5, 2017, the Company sold the property to Crombie REIT for cash consideration of $31.1 million, resulting in a pre-tax gain of $1.0 million. Proceeds from the transaction were used to repay the loan.

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

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

Key Management Personnel Compensation

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

Key management personnel compensation is comprised of:

($ in millions)	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016
Salaries, bonus and other short-term employment benefits	**$ 9.7**	$ 9.6
Post-employment benefits	**1.6**	1.9
Termination benefits	**8.7**	1.5
Share-based payments	**14.8**	6.1
	$ 34.8	$ 19.1

Indemnities

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

CONTINGENCIES

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

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

RISK MANAGEMENT

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

Project Sunrise

On May 4, 2017, the Company announced a major transformation initiative to streamline the organization and enhance the efficiency of its operations. Failure to execute change management during this transition could result in disruptions to the operations of the business or the ability of the Company to implement and achieve its long-term strategic objectives. The implementation of a major transformation initiative has the ability to create labor unrest, negative publicity and business disruption.

There is the risk that the Company will not realize the $500 million in annualized savings when the independent regions are collapsed, when collaborations with vendors are simplified and efficiency and productivity initiatives are complete by the end of fiscal 2020.

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, warehouse clubs, and online retailers, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

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

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

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

Product Safety and Security

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

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

Loyalty Program

The Company utilizes a third-party loyalty program to provide additional value to customers. The decisions made by the third-party can adversely affect the reputation and financial operations of the Company. Promotional and other activities related to possible changes in the loyalty programs must be effectively managed and coordinated to ensure a positive customer perception. Failure to effectively manage and communicate changes to the loyalty program may negatively impact the Company's reputation.

Human Resources

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

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

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

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

Recent announcements of minimum wage increases in several provinces will have an impact on labour costs and the labour force of the Company.

Operations

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Technology

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

Information Management

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

The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management.

Supply Chain

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

Product Costs

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

Economic Environment

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

Liquidity Risk

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

Interest Rate Fluctuation

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

Business Continuity

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

Insurance

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

Ethical Business Conduct

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

Environmental

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

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

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

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

Occupational Health and Safety

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

Real Estate

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

Legal, Taxation and Accounting

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Utility and Fuel Prices

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

Credit Rating

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

Foreign Currency

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

Capital Allocation

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

Seasonality

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

Foreign Operations

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

Drug Regulation and Legislation

The Company currently operates 353 in-store pharmacies and 74 freestanding pharmacies that are subject to risks associated with changes to federal and provincial legislation governing the sale of prescription drugs. Legislated changes to generic prescription drug prices and dispensing fees, which vary province by province, continued to impact the Company in fiscal 2017. In addition to provincial plan changes, third-parties continue to advocate for changes to generic drug legislation in order to reduce drug plan costs. Changes to regulations and legislation affecting generic prescription drug prices, reimbursement rates for generic drugs, manufacturer allowance funding, customer inducements and dispensing fees are expected to continue the downward pressure on prescription drug sales. The Company has and will continue to identify opportunities to mitigate the negative impact these changes have on financial performance.

Pension Plans

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

The Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 17 percent of the employees of Sobeys and its franchisees and affiliates participate in these plans. The responsibility of Sobeys, its franchisees, and affiliates to make contributions to these plans is limited to the amounts established in the collective bargaining agreements; and other associated agreements, however poor performance of these plans could have a negative effect on the participating employees or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

Leverage Risk

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

SUBSEQUENT EVENTS

On May 11, 2017, the unitholders of Crombie REIT approved a tax reorganization that will eliminate wholly-owned corporate subsidiaries being subject to corporate income taxes. This tax reorganization is not expected to have a significant impact on the financial position of the Company.

On June 2, 2017, Crombie REIT announced that it had exercised its right to redeem its 5.00% Series D Convertible Unsecured Subordinated Debentures. The redemption will be effective on July 4, 2017. Upon redemption, Crombie REIT will pay to the holders of debentures the redemption price equal to the outstanding principal amount and all accrued and unpaid interest. Empire currently holds a $25.1 million investment in the Series D convertible debentures.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

NON-GAAP FINANCIAL MEASURES & FINANCIAL METRICS

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

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

Financial Measures

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reconciles net earnings (loss) to EBITDA:

($ in millions)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016
Net earnings (loss)	$ 32.3	$ (939.8)	$ 172.5	$ (2,114.6)
Income tax expense (recovery)	1.4	(256.7)	42.5	(441.3)
Finance costs, net	27.7	36.3	118.0	137.4
Operating income (loss)	61.4	(1,160.2)	333.0	(2,418.5)
Depreciation	88.6	90.9	355.5	384.8
Amortization of intangibles	21.7	22.1	88.7	89.0
EBITDA	$ 171.7	$ (1,047.2)	$ 777.2	$ (1,944.7)

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance. These adjustments result in a truer economic representation on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the "Management's Explanation of Consolidated Operating Results", and "Food Retailing" sections of this MD&A.
- Management calculates interest expense as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income. Management believes that this alternative measure of interest expense represents a better measure of the Company's debt service expense, without the offsetting total finance income, or amounts relating to pension costs and accretion on provisions, as presented in Note 21 to the audited consolidated financial statements.

The following table reconciles finance costs, net to interest expense:

($ in millions)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016
Finance costs, net	$ 27.7	$ 36.3	$ 118.0	$ 137.4
Plus: finance income	1.0	1.0	6.1	3.1
Less: net pension finance costs	(2.9)	(3.0)	(11.5)	(12.4)
Less: accretion expense on provisions	(0.3)	(4.7)	(9.5)	(14.1)
Interest expense	$ 25.5	$ 29.6	$ 103.1	$ 114.0
Interest expense on financial liabilities measured at amortized cost	$ 25.5	$ 29.6	$ 103.1	$ 113.8
Losses on cash flow hedges reclassified from other comprehensive (loss) income	–	–	–	0.2
Interest expense	$ 25.5	$ 29.6	$ 103.1	$ 114.0

- Adjusted net earnings are net earnings (loss), net of non-controlling interest, excluding certain items to better analyze trends in performance and financial results. These adjustments result in a truer economic representation of the underlying business on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted net earnings is reconciled in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" sections of this MD&A.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases. Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. Free cash flow is reconciled to cash flows from operating activities as reported on the consolidated statements of cash flows, and is presented in the "Free Cash Flow" section of this MD&A.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt. Management believes that funded debt represents a better measure of the Company's total financial obligations on which interest payments are made.
- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company's financial obligations after 100 percent of cash and cash equivalents are applied against the total obligation.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.

The following tables reconcile the Company's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at May 6, 2017, May 7, 2016 and May 2, 2015, respectively:

($ in millions)	May 6, 2017	May 7, 2016[1][2]	May 2, 2015[1][2]
Long-term debt due within one year	**$ 134.0**	$ 350.4	$ 53.9
Long-term debt	**1,736.8**	2,017.0	2,230.2
Funded debt	**1,870.8**	2,367.4	2,284.1
Less: cash and cash equivalents	**(207.3)**	(264.7)	(295.9)
Net funded debt	**1,663.5**	2,102.7	1,988.2
Total shareholders' equity, net of non-controlling interest	**3,644.2**	3,623.9	5,986.7
Net total capital	**$ 5,307.7**	$ 5,726.6	$ 7,974.9

($ in millions)	May 6, 2017	May 7, 2016	May 2, 2015
Funded debt	**$ 1,870.8**	$ 2,367.4	$ 2,284.1
Total shareholders' equity, net of non-controlling interest	**3,644.2**	3,623.9	5,986.7
Total capital	**5,515.0**	$ 5,991.3	$ 8,270.8

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated balance sheets.
(2) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of this MD&A for further detail.

Financial Metrics

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

- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of cost control and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.
- Interest coverage is calculated as operating income divided by interest expense.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholder's equity.
- 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.
- Funded debt to adjusted EBITDA ratio is funded debt divided by trailing four-quarter adjusted 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 adjusted EBITDA generated.
- Adjusted EBITDA to interest expense ratio is trailing four-quarter adjusted 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 adjusted 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the calculation of Empire's book value per common share as at May 6, 2017, May 7, 2016 and May 2, 2015.

($ in millions, except per share information)	**May 6, 2017**	May 7, 2016[1]	May 2, 2015[1]
Shareholders' equity, net of minority interest	**$ 3,644.2**	$ 3,623.9	$ 5,986.7
Shares outstanding (basic)	**271.7**	271.7	277.0
Book value per common share	**$ 13.41**	$ 13.34	$ 21.61

(1) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of this MD&A for further detail.

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

Approved by Board of Directors: June 28, 2017
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 "Michael Medline"

Michael Medline
President and Chief Executive Officer

June 28, 2017

signed "Michael Vels"

Michael Vels
Chief Financial Officer

June 28, 2017

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 6, 2017 and May 7, 2016 and the consolidated statements of earnings (loss), comprehensive income (loss), changes in shareholders' equity, and cash flows for the 52-week period ended May 6, 2017 and the 53-week period ended May 7, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empire Company Limited as at May 6, 2017 and May 7, 2016 and its financial performance and its cash flows for the 52-week period ended May 6, 2017 and the 53-week period ended May 7, 2016 in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants,
Licensed Public Accountants

Halifax, Canada
June 28, 2017

CONSOLIDATED BALANCE SHEETS

As At (in millions of Canadian dollars)	May 6, 2017	May 7, 2016
ASSETS		
Current		
Cash and cash equivalents	**$ 207.3**	$ 264.7
Receivables	**413.6**	489.4
Inventories (Note 4)	**1,322.2**	1,287.3
Prepaid expenses	**117.5**	117.3
Loans and other receivables (Note 5)	**25.5**	26.4
Income taxes receivable	**31.9**	11.9
Assets held for sale (Note 6)	**48.5**	407.1
	2,166.5	2,604.1
Loans and other receivables (Note 5)	**82.1**	93.5
Investments	**25.1**	24.7
Investments, at equity (Note 7)	**648.4**	574.9
Other assets (Note 8)	**43.3**	57.3
Property and equipment (Note 9)	**3,033.3**	3,144.7
Investment property (Note 10)	**103.0**	82.9
Intangibles (Note 11)	**880.5**	911.5
Goodwill (Note 12)	**1,003.4**	998.7
Deferred tax assets (Note 13)	**709.9**	646.2
	$ 8,695.5	$ 9,138.5
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 2,230.2**	$ 2,173.1
Income taxes payable	**38.4**	21.2
Provisions (Note 14)	**88.1**	174.9
Long-term debt due within one year (Note 15)	**134.0**	350.4
	2,490.7	2,719.6
Provisions (Note 14)	**105.8**	131.7
Long-term debt (Note 15)	**1,736.8**	2,017.0
Other long-term liabilities (Note 16)	**141.7**	108.7
Employee future benefits (Note 17)	**374.0**	336.8
Deferred tax liabilities (Note 13)	**143.8**	141.7
	4,992.8	5,455.5
SHAREHOLDERS' EQUITY		
Capital stock (Note 18)	**2,034.4**	2,045.1
Contributed surplus	**25.3**	22.5
Retained earnings	**1,572.8**	1,546.4
Accumulated other comprehensive income	**11.7**	9.9
	3,644.2	3,623.9
Non-controlling interest	**58.5**	59.1
	3,702.7	3,683.0
	$ 8,695.5	$ 9,138.5

See accompanying notes to the consolidated financial statements.

On Behalf of the Board

signed "James Dickson"

James Dickson
Director

signed "Michael Medline"

Michael Medline
Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

52 and 53 Weeks Ended (in millions of Canadian dollars, except share and per share amounts)	May 6, 2017	May 7, 2016
Sales	$ 23,806.2	$ 24,618.8
Other income (loss) (Note 19)	48.2	(10.9)
Share of earnings from investments, at equity (Note 7)	77.5	86.1
Operating expenses		
Cost of sales	18,099.0	18,661.2
Selling and administrative expenses	5,499.9	5,424.2
Impairments of goodwill and long-lived assets (Notes 9 and 12)	–	3,027.1
Operating income (loss)	333.0	(2,418.5)
Finance costs, net (Note 21)	118.0	137.4
Earnings (loss) before income taxes	215.0	(2,555.9)
Income tax expense (recovery) (Note 13)	42.5	(441.3)
Net earnings (loss)	$ 172.5	$ (2,114.6)
Earnings (loss) for the year attributable to:		
Non-controlling interest	$ 14.0	$ 16.4
Owners of the Company	158.5	(2,131.0)
	$ 172.5	$ (2,114.6)
Earnings (loss) per share (Note 22)		
Basic	$ 0.58	$ (7.78)
Diluted	$ 0.58	$ (7.78)
Weighted average number of common shares outstanding, in millions (Note 22)		
Basic	271.9	273.9
Diluted	272.0	274.0

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

52 and 53 Weeks Ended (in millions of Canadian dollars)	**May 6, 2017**	May 7, 2016
Net earnings (loss)	**$ 172.5**	$ (2,114.6)
Other comprehensive (loss) income		
Items that will be reclassified subsequently to net earnings (loss)		
Unrealized (losses) gains on derivatives designated as cash flow hedges (net of taxes of $0.2 (2016 – $(1.5)))	**(0.7)**	3.8
Reclassification of losses on derivatives designated as cash flow hedges to earnings (loss) (net of taxes of $0.1 (2016 – $(0.1)))	**–**	0.1
Unrealized gains (losses) on available for sale financial assets (net of taxes of $(0.1) (2016 – $0.1))	**0.3**	(0.3)
Share of other comprehensive income of investments, at equity (net of taxes of $(0.2) (2016 – $(0.4)))	**0.5**	1.1
Exchange differences on translation of foreign operations (net of taxes of $0.6 (2016 – $(2.4)))	**1.7**	(1.1)
	1.8	3.6
Items that will not be reclassified subsequently to net earnings (loss)		
Actuarial (losses) gains on defined benefit plans (net of taxes of $7.9 (2016 – $(2.8))) (Note 17)	**(20.8)**	7.3
Total comprehensive income (loss)	**$ 153.5**	$ (2,103.7)
Total comprehensive income (loss) for the year attributable to:		
Non-controlling interest	**$ 14.0**	$ 16.4
Owners of the Company	**139.5**	(2,120.1)
	$ 153.5	$ (2,103.7)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars)	Capital Stock	Contributed Surplus	Accumulated Other Compre-hensive Income	Retained Earnings	Total Attributable to Owners of the Company	Non-controlling Interest	Total Equity
Balance at May 2, 2015	$ 2,109.4	$ 8.2	$ 6.3	$ 3,862.8	$ 5,986.7	$ 53.1	$ 6,039.8
Dividends declared on common shares	–	–	–	(109.4)	(109.4)	–	(109.4)
Equity based compensation, net	0.5	14.3	–	–	14.8	–	14.8
Redemption of capital stock (Note 18)	(64.8)	–	–	(83.3)	(148.1)	–	(148.1)
Capital transactions with structured entities	–	–	–	–	–	(10.4)	(10.4)
Transactions with owners	(64.3)	14.3	–	(192.7)	(242.7)	(10.4)	(253.1)
Net loss	–	–	–	(2,131.0)	(2,131.0)	16.4	(2,114.6)
Other comprehensive income	–	–	3.6	7.3	10.9	–	10.9
Total comprehensive loss for the year	–	–	3.6	(2,123.7)	(2,120.1)	16.4	(2,103.7)
Balance at May 7, 2016	$ 2,045.1	$ 22.5	$ 9.9	$ 1,546.4	$ 3,623.9	$ 59.1	$ 3,683.0
Dividends declared on common shares	**–**	**–**	**–**	**(111.3)**	**(111.3)**	**–**	**(111.3)**
Equity based compensation, net	**–**	**2.8**	**–**	**–**	**2.8**	**–**	**2.8**
Acquisition of shares held in trust (Note 18)	**(10.7)**	**–**	**–**	**–**	**(10.7)**	**–**	**(10.7)**
Capital transactions with structured entities	**–**	**–**	**–**	**–**	**–**	**(14.6)**	**(14.6)**
Transactions with owners	**(10.7)**	**2.8**	**–**	**(111.3)**	**(119.2)**	**(14.6)**	**(133.8)**
Net earnings	**–**	**–**	**–**	**158.5**	**158.5**	**14.0**	**172.5**
Other comprehensive loss	**–**	**–**	**1.8**	**(20.8)**	**(19.0)**	**–**	**(19.0)**
Total comprehensive income for the year	**–**	**–**	**1.8**	**137.7**	**139.5**	**14.0**	**153.5**
Balance at May 6, 2017	**$ 2,034.4**	**$ 25.3**	**$ 11.7**	**$ 1,572.8**	**$ 3,644.2**	**$ 58.5**	**$ 3,702.7**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 and 53 Weeks Ended (in millions of Canadian dollars)	**May 6, 2017**	May 7, 2016
Operations		
Net earnings (loss)	**$ 172.5**	$ (2,114.6)
Adjustments for:		
Depreciation	**355.5**	384.8
Income tax expense (recovery)	**42.5**	(441.3)
Finance costs, net (Note 21)	**118.0**	137.4
Amortization of intangibles	**88.7**	89.0
Net (gain) loss on disposal of assets	**(21.3)**	42.6
Impairment of non-financial assets, net	**27.5**	17.6
Impairments of goodwill and long-lived assets (Notes 9 and 12)	**–**	3,027.1
Amortization of deferred items	**12.8**	12.8
Equity in earnings of other entities, net of distributions received	**19.9**	9.9
Employee future benefits	**8.5**	(4.2)
Increase in long-term lease obligation	**13.9**	6.7
Decrease in long-term provisions	**(35.4)**	(25.8)
Equity based compensation, net	**3.3**	3.6
Net change in non-cash working capital	**0.5**	(132.2)
Income taxes paid, net	**(98.4)**	(116.6)
Cash flows from operating activities	**708.5**	896.8
Investment		
Increase in investments	**(0.4)**	(4.0)
Property, equipment and investment property purchases	**(460.7)**	(616.5)
Proceeds on disposal of property, equipment and investment property	**425.7**	142.5
Additions to intangibles	**(53.8)**	(55.5)
Loans and other receivables	**12.3**	(6.6)
Tenant inducements	**58.8**	–
Other assets and other long-term liabilities	**2.7**	5.6
Business acquisitions (Note 23)	**(21.9)**	(90.7)
Interest received	**1.6**	2.6
Cash flows used in investing activities	**(35.7)**	(622.6)
Financing		
Issue of long-term debt	**55.6**	82.7
Debt financing costs	**–**	(1.4)
Repayment of long-term debt	**(397.2)**	(94.5)
Net (repayment) advance of credit facilities	**(165.0)**	68.1
Interest paid	**(87.0)**	(92.4)
Repurchase of Non-Voting Class A shares (Note 18)	**–**	(148.1)
Acquisition of shares held in trust (Note 18)	**(10.7)**	–
Dividends paid, common shares	**(111.3)**	(109.4)
Non-controlling interest	**(14.6)**	(10.4)
Cash flows used in financing activities	**(730.2)**	(305.4)
Decrease in cash and cash equivalents	**(57.4)**	(31.2)
Cash and cash equivalents, beginning of year	**264.7**	295.9
Cash and cash equivalents, end of year	**$ 207.3**	$ 264.7

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
May 6, 2017 (in millions of Canadian dollars, except share and per share amounts)

1. REPORTING ENTITY

Empire Company Limited ("Empire" or the "Company") is a Canadian company whose key businesses are food retailing and related real estate. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The consolidated financial statements for the period ended May 6, 2017 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and its joint ventures are accounted for using the equity method. As at May 6, 2017 the Company's business operations were conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 26, Segmented Information. The Company's Food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's first quarter. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years. The years ended May 6, 2017 and May 7, 2016 were 52 and 53 weeks respectively.

2. BASIS OF PREPARATION

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on June 28, 2017.

Basis of measurement

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

Use of estimates and judgments

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

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

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

(a) Inventories

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

(b) Impairment

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

Goodwill is subject to impairment testing on an annual basis. The Company performed its annual assessment of goodwill impairment during its third quarter. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are indicators that the recoverable amount of long-lived assets may be less than their carrying amount.

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

(c) Employee future benefits

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

(d) Income taxes

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

(e) Business acquisitions

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

(f) Provisions

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

(g) Supply agreements

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

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

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

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

(b) Business acquisitions

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

(c) Foreign currency translation

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

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

(d) Cash and cash equivalents

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

(e) Inventories

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

(f) Income taxes

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

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

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

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

(g) Assets held for sale

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

(h) Investments in associates

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

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

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

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

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

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

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

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

(i) Investments in joint ventures

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

(j) Financial instruments

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

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

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

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

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

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

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

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(k) Hedges

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

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

Significant derivatives include the following:

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

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

(l) Property and equipment

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

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

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

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

Depreciation has been included within selling and administrative expenses in the consolidated statements of earnings (loss). 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 (loss). If the sale is to a Company's investment, at equity, a portion of the gain or loss is deferred and reduces the carrying value of the investment.

(m) Investment property

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

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

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) The Company as lessor

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

(ii) The Company as lessee

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

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

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

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

(iii) Sale and leaseback transactions

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

(o) Intangibles

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

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

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

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

(p) Goodwill

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

(q) Impairment of non-financial assets

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

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

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

(r) Customer loyalty programs

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

(s) Provisions

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

(t) Borrowing costs

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

(u) Deferred revenue

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

(v) Employee benefits

(i) Short-term employment benefits

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

(ii) Post-employment benefits

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

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

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

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

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

(iii) Termination benefits

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

(w) Revenue recognition

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

(x) Vendor allowances

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

(y) Interest and dividend income

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

(z) Earnings per share

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

(aa) Stock-based compensation

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

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

(bb) Changes to accounting policies adopted during fiscal 2017

(i) Presentation of financial statements

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing clarifying guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments became effective during the first quarter of fiscal 2017 and had no material impact on the Company's consolidated financial statements.

(ii) Income taxes

In November 2016, the IFRS Interpretations Committee ("IFRIC") issued its agenda decision addressing the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax in accordance with IAS 12, "Income Taxes". IFRIC noted that an intangible asset with an indefinite useful life does not mean infinite life, nor does it mean the expected manner of recovery of the carrying amount would result solely through sale. Therefore, in applying IAS 12, an entity must determine its expected manner of recovery of the carrying value of the intangible asset with an indefinite life and should reflect the tax consequences that follow from that expected manner of recovery. Previously, Empire measured deferred taxes on temporary differences arising from indefinite life

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intangible assets using capital gains rates on the basis that the assets will be recovered through its disposition. As a result of the IFRIC agenda decision, the Company has changed its accounting policy to measure deferred taxes at the income tax rate applicable to ordinary taxable income expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company adopted this change on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" and the impact on the consolidated financial statements for the 52 weeks ended May 6, 2017 was an increase to deferred tax liabilities of $33.6 (2016 – $33.6), an increase to retained earnings of $2.9 (2016 – $2.9), with a corresponding adjustment to goodwill of $36.5 (2016 – $36.5).

(cc) Future standards

(i) Statement of cash flows

In January 2016, the IASB issued Disclosure Initiative Amendments to IAS 7, "Statement of Cash Flows". These amendments require entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash and non-cash-flow changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments will occur in fiscal 2018 and is not expected to have a significant impact on current disclosures of the Company.

(ii) Financial instruments

In July 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, IFRS 9 further establishes an expected credit loss impairment model where it is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also introduces a new hedge accounting model that aligns with corresponding risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is applied prospectively. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(iii) Revenue

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

In April 2016, the IASB published clarifications to IFRS 15 which addresses three topics (identifying performance obligations, principle versus agent considerations and licensing) as well as providing some transition relief for modified and completed contracts. The implementation timelines for these clarifications are consistent with IFRS 15.

(iv) Leases

In January 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases" and related interpretations. IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15 "Revenue from Contracts with Customers", but the Company does not intend to early adopt IFRS 16. For leases where the Company is the lessee it has the option of adopting a full retrospective approach or a modified retrospective approach with various optional practical expedients available.

The Company expects the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. New assets and liabilities will be recognized for the Company's operating property and equipment leases. Additional changes due to the nature and timing of expenses related to the operating leases will be incurred as the Company will recognize depreciation for right-of-use assets and finance expense on lease liabilities replacing straight-line lease expense. No significant impacts are expected where the Company is a lessor or sublessor.

The Company is currently evaluating the impact of these standards on its consolidated financial statements. The Company will disclose additional information including transition methods and estimated qualitative financial impacts during fiscal 2018.

4. INVENTORIES

The cost of inventories recognized as an expense during the year was $18,099.0 (2016 – $18,661.2). The Company recorded $3.5 (2016 – $1.2) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 6, 2017. There were no reversals of inventories written down previously (2016 – $ nil).

5. LOANS AND OTHER RECEIVABLES

		May 6, 2017		May 7, 2016
Loans receivable	**$**	**64.8**	$	76.6
Notes receivable and other		**42.8**		43.3
		107.6		119.9
Less amount due within one year		**25.5**		26.4
	$	**82.1**	$	93.5

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

Included in notes receivable and other as at May 6, 2017, is $13.2 (2016 – $14.5) due from a third party related to equipment sales.

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

6. ASSETS HELD FOR SALE

On June 29, 2016, Sobeys and its wholly-owned subsidiaries closed an agreement with Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which the Company has a 41.5 percent ownership, to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Assets related to this transaction of $358.0 were included in assets held for sale as at May 7, 2016 (Note 28).

During fiscal 2017, Sobeys sold 13 properties and leased back four from third parties. Total proceeds from these transactions were $66.9, resulting in a pre-tax gain of $4.5 which has been recognized in the consolidated statements of earnings (loss).

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

As at May 6, 2017, assets held for sale relates to land, buildings and equipment expected to be sold in the next twelve months.

7. INVESTMENTS, AT EQUITY

		May 6, 2017		May 7, 2016
Investment in associates				
Crombie REIT	**$**	**459.1**	$	366.8
Canadian real estate partnerships		**143.0**		148.5
U.S. real estate partnerships		**36.8**		50.2
Investment in joint ventures				
Canadian Digital Cinema Partnership ("CDCP")		**9.5**		9.4
Total	**$**	**648.4**	$	574.9

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

		May 6, 2017		May 7, 2016
Crombie REIT	**$**	**883.6**	$	786.0

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company owns 61,008,700 Class B LP units and attached special voting units of Crombie REIT, along with 909,090 REIT units, representing a 41.5% (2016 – 41.5%) economic and voting interest in Crombie REIT.

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

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

	May 6, 2017	May 7, 2016
Balance, beginning of year	**$ 366.8**	$ 365.6
Equity earnings	**41.5**	38.9
Share of comprehensive income	**0.7**	1.4
Distributions, net of DRIP	**(42.8)**	(42.3)
Deferral of gains on sale of property	**(2.2)**	(4.0)
Reversal of deferred gain on sale of property to unrelated party	**1.7**	7.2
Interest acquired in Crombie REIT	**93.4**	–
Balance, end of year	**$ 459.1**	$ 366.8

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

	May 6, 2017	May 7, 2016
Balance, beginning of year	**$ 148.5**	$ 143.4
Equity earnings	**28.2**	38.5
Distributions	**(33.7)**	(35.6)
Investment	**–**	2.2
Balance, end of year	**$ 143.0**	$ 148.5

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

	May 6, 2017	May 7, 2016
Balance, beginning of year	**$ 50.2**	$ 59.3
Equity earnings	**6.9**	8.2
Distributions	**(20.1)**	(17.4)
Foreign currency translation adjustment	**1.1**	1.3
Investment	**0.4**	1.8
Dilution loss (Note 19)	**(1.7)**	(3.0)
Balance, end of year	**$ 36.8**	$ 50.2

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

	May 6, 2017	May 7, 2016
Balance, beginning of year	**$ 9.4**	$ 9.5
Equity earnings	**0.9**	0.5
Share of comprehensive income	**–**	0.1
Distributions	**(0.8)**	(0.7)
Balance, end of year	**$ 9.5**	$ 9.4

The following amounts represent the revenues, expenses, assets, and liabilities of Crombie REIT as at and for the 12 months ended March 31, 2017, as well as a reconciliation of the carrying amount of the Company's investment in Crombie REIT to the net assets attributable to unitholders of Crombie REIT:

	March 31, 2017	March 31, 2016
Revenues	**$ 407.2**	$ 372.3
Expenses	**305.7**	279.1
Earnings before income taxes	**$ 101.5**	$ 93.2
Loss from continuing operations	**$ (28.3)**	$ (24.2)
Other comprehensive income	**1.3**	2.9
Total comprehensive loss	**$ (27.0)**	$ (21.3)

	March 31, 2017	March 31, 2016
Assets		
Current	**$ 35.7**	$ 59.8
Non-current	**3,916.6**	3,301.2
Total	**$ 3,952.3**	$ 3,361.0
Liabilities		
Current	**$ 205.1**	$ 165.9
Non-current	**2,363.2**	2,028.5
Total	**$ 2,568.3**	$ 2,194.4
Unitholders' net assets		
REIT Units	**$ 830.5**	$ 705.9
Class B LP Units	**553.5**	460.7
	1,384.0	1,166.6
Less REIT Units	**(830.5)**	(705.9)
Cumulative changes since acquisition of Crombie REIT		
Variances in timing of distributions	**4.5**	4.0
Issue costs related to Class B LP Units	**12.6**	12.6
Deferred gains (net of depreciation addback)	**(163.4)**	(162.6)
Dilution gains	**38.6**	38.6
Write off of portion of AOCI on dilution of interest in Crombie REIT	**0.7**	0.7
Carrying amount attributable to investment in Class B LP Units	**446.5**	354.0
REIT Units owned by Empire	**13.8**	13.8
Cumulative equity earnings on REIT Units	**2.4**	1.8
Cumulative distributions on REIT Units	**(3.6)**	(2.8)
Carrying amount of investment in Crombie REIT	**$ 459.1**	$ 366.8

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

The following amounts represent the revenues, expenses, assets, and liabilities of the Canadian real estate partnerships as at and for the 12 months ended March 31, 2017:

	March 31, 2017	March 31, 2016
Revenues	**$ 131.6**	$ 150.6
Expenses	**77.9**	62.5
Net earnings from continuing operations	**$ 53.7**	$ 88.1
Net earnings (loss) from discontinued operations	**15.4**	(0.4)
Net earnings	**$ 69.1**	$ 87.7

	March 31, 2017	March 31, 2016
Current assets	**$ 330.4**	$ 334.2
Current liabilities	**36.1**	29.9
Net assets	**$ 294.3**	$ 304.3
Carrying amount of investment	**$ 143.0**	$ 148.5

The Company has interests in various U.S. real estate partnerships ranging from 37.1% to 42.1% which are involved in residential property developments in the United States.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following amounts represent the revenues, expenses, assets, and liabilities of the U.S. real estate partnerships as at and for the 12 months ended March 31, 2017:

	March 31, 2017	March 31, 2016
Revenues	$ 51.9	$ 59.2
Expenses	34.3	39.9
Net earnings	$ 17.6	$ 19.3

	March 31, 2017	March 31, 2016
Current assets	$ 104.7	$ 144.5
Current liabilities	6.0	16.3
Net assets	$ 98.7	$ 128.2
Carrying amount of investment	$ 36.8	$ 50.2

8. OTHER ASSETS

	May 6, 2017	May 7, 2016
Deferred lease assets	$ 20.3	$ 23.6
Derivative assets	1.1	2.1
Deferred financing costs	5.5	14.6
Other	16.4	17.0
Total	$ 43.3	$ 57.3

9. PROPERTY AND EQUIPMENT

May 6, 2017	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 625.1	$ 1,295.5	$ 2,499.3	$ 703.9	$ 296.8	$ 5,420.6
Additions	10.6	10.6	125.6	34.6	299.6	481.0
Additions from business acquisitions	–	–	5.6	–	–	5.6
Transfers	(45.8)	32.4	20.3	3.3	(246.4)	(236.2)
Disposals and write downs	(52.1)	(25.2)	(223.5)	(41.5)	(1.9)	(344.2)
Closing balance	$ 537.8	$ 1,313.3	$ 2,427.3	$ 700.3	$ 348.1	$ 5,326.8
Accumulated depreciation and impairment losses						
Opening balance	$ –	$ 403.5	$ 1,438.0	$ 434.4	$ –	$ 2,275.9
Disposals and write downs	–	(11.5)	(214.8)	(40.3)	–	(266.6)
Transfers	–	(7.7)	(66.2)	(15.3)	–	(89.2)
Depreciation	–	61.3	240.5	53.0	–	354.8
Impairment losses	–	3.3	14.1	1.6	–	19.0
Impairment reversals	–	–	(0.3)	(0.1)	–	(0.4)
Closing balance	$ –	$ 448.9	$ 1,411.3	$ 433.3	$ –	$ 2,293.5
Net carrying value as at May 6, 2017	$ 537.8	$ 864.4	$ 1,016.0	$ 267.0	$ 348.1	$ 3,033.3

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

Finance leases

The Company has various property leases for store locations classified as finance leases with a net carrying value of $11.3 as at May 6, 2017 (2016 – $5.0). These leases are included in buildings.

The Company has equipment leases classified as finance leases with a net carrying value of $15.8 as at May 6, 2017 (2016 – $30.8). These leases are included in equipment.

Assets under construction

During the year, the Company capitalized borrowing costs of $2.2 (2016 – $1.9) on indebtedness related to property and equipment under construction. The Company used a capitalization rate of 4.8 percent (2016 – 4.2 percent).

Security

As at May 6, 2017, the net carrying value of property pledged as security for borrowings is $62.2 (2016 – $67.5).

Impairment of property and equipment

The Company performed the impairment test for property and equipment and determined recoverable amounts based on VIU calculations using cash flow projections from the Company's latest internal forecasts. Key assumptions used in determining VIU include discount rates, growth rates, and expected changes in cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the CGUs. Forecasts are projected beyond three years based on long-term growth rates ranging from 3.0 to 5.0 percent. Discount rates are calculated on a pre-tax basis and range from 7.0 to 10.0 percent.

Impairment losses of $19.0 and reversals of $0.4 were recorded during the year ended May 6, 2017 (2016 – $168.4 and $2.2). During fiscal 2016, an impairment loss of $148.6 was recorded for property and equipment in the Sobeys West operating segment and was recognized within impairment of goodwill and long-lived assets in the consolidated statements of earnings (loss).

All impairment losses and reversals relate to the food retailing segment.

10. INVESTMENT PROPERTY

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

	May 6, 2017	May 7, 2016
Cost		
Opening balance	$ 91.4	$ 115.1
Additions	0.2	7.9
Transfers	29.5	(26.3)
Disposals and write downs	(2.1)	(5.3)
Closing balance	$ 119.0	$ 91.4
Accumulated depreciation and impairment losses		
Opening balance	$ 8.5	$ 10.9
Depreciation	0.7	0.6
Impairment expense	2.3	–
Transfers	5.0	(3.2)
Disposals and write downs	(0.5)	0.2
Closing balance	$ 16.0	$ 8.5
Net carrying value	$ 103.0	$ 82.9
Fair value	$ 145.7	$ 114.6

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 6, 2017 and May 7, 2016. Additions to investment property through acquisition are transacted at fair value and therefore carrying value equals fair value at the time of acquisition. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information or the use of an external independent valuation company.

Rental income from investment property included in the consolidated statements of earnings (loss) amounted to $3.6 for the year ended May 6, 2017 (2016 – $4.6).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to $2.3 for the year ended May 6, 2017 (2016 – $2.3). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to $1.0 for the year ended May 6, 2017 (2016 – $1.0). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of earnings (loss).

Impairment of investment property follows the same methodology as property and equipment (Note 3(q)). Impairment losses of $2.3 and reversals of $ nil were recorded during the year ended May 6, 2017 (2016 – $ nil and $ nil).

11. INTANGIBLES

May 6, 2017		Brand Names		Deferred Purchase Agreements		Prescription Files		Software		Off Market Leases		Other		Total
Cost														
Opening balance	$	**201.0**	$	**143.0**	$	**305.2**	$	**258.8**	$	**179.8**	$	**199.5**	$	**1,287.3**
Additions, separately acquired		**–**		**10.5**		**–**		**1.1**		**–**		**12.5**		**24.1**
Additions from business acquisitions		**–**		**–**		**0.5**		**–**		**–**		**3.0**		**3.5**
Transfers		**–**		**0.7**		**(1.9)**		**35.5**		**0.5**		**0.3**		**35.1**
Disposals and write downs		**–**		**(3.0)**		**(0.5)**		**(17.8)**		**(7.2)**		**(6.1)**		**(34.6)**
Closing balance	$	**201.0**	$	**151.2**	$	**303.3**	$	**277.6**	$	**173.1**	$	**209.2**	$	**1,315.4**
Accumulated amortization and impairment losses														
Opening balance	$	**26.1**	$	**58.9**	$	**68.7**	$	**128.8**	$	**18.9**	$	**74.4**	$	**375.8**
Amortization		**2.0**		**16.3**		**20.5**		**35.1**		**7.0**		**7.8**		**88.7**
Impairment reversals		**–**		**–**		**(0.4)**		**–**		**–**		**–**		**(0.4)**
Transfers		**–**		**0.1**		**(1.7)**		**(0.1)**		**0.5**		**0.1**		**(1.1)**
Disposals and write downs		**–**		**(2.8)**		**(0.5)**		**(17.6)**		**(1.2)**		**(6.0)**		**(28.1)**
Closing balance	$	**28.1**	$	**72.5**	$	**86.6**	$	**146.2**	$	**25.2**	$	**76.3**	$	**434.9**
Net carrying value as at May 6, 2017	$	**172.9**	$	**78.7**	$	**216.7**	$	**131.4**	$	**147.9**	$	**132.9**	$	**880.5**

May 7, 2016		Brand Names		Deferred Purchase Agreements		Prescription Files		Software		Off Market Leases		Other		Total
Cost														
Opening balance	$	201.0	$	115.2	$	306.9	$	276.2	$	180.5	$	200.3	$	1,280.1
Additions, separately acquired		–		31.0		0.5		–		–		5.5		37.0
Additions from business acquisitions		–		2.9		–		–		–		4.1		7.0
Transfers		–		(2.7)		(2.2)		25.9		(0.7)		(0.3)		20.0
Disposals and write downs		–		(3.4)		–		(43.3)		–		(10.1)		(56.8)
Closing balance	$	201.0	$	143.0	$	305.2	$	258.8	$	179.8	$	199.5	$	1,287.3
Accumulated amortization and impairment losses														
Opening balance	$	23.1	$	46.9	$	49.0	$	137.8	$	11.4	$	73.9	$	342.1
Amortization		3.0		15.5		20.6		33.9		7.4		8.6		89.0
Transfers		–		(0.1)		(0.9)		0.4		0.1		1.0		0.5
Disposals and write downs		–		(3.4)		–		(43.3)		–		(9.1)		(55.8)
Closing balance	$	26.1	$	58.9	$	68.7	$	128.8	$	18.9	$	74.4	$	375.8
Net carrying value as at May 7, 2016	$	174.9	$	84.1	$	236.5	$	130.0	$	160.9	$	125.1	$	911.5

In addition to development costs capitalized related to software, the Company included in selling and administrative expenses $3.4 of research and development costs (2016 – $7.5).

Impairment of intangibles follows the same methodology as property and equipment (Note 3(q)). For the year ended May 6, 2017, impairment losses of $ nil (2016 – $ nil) and reversals of $0.4 were recorded (2016 – $ nil).

Included in other intangibles at May 6, 2017 are liquor licenses of $7.8 (2016 – $4.1). These licenses have options to renew and it is the Company's intention to renew these licenses at each renewal date indefinitely. Therefore, there is no limit to which cash inflows will be generated at each store location for which the license is valid, and these assets are considered to have indefinite useful lives. Also included in other intangibles as at May 6, 2017 and May 7, 2016 are the following amounts with indefinite useful lives: Loyalty programs – $11.4 (2016 – $11.4) and Private labels – $59.5 (2016 – $59.5). The Company has also determined that Brand names with a net carrying value of $172.8 (2016 – $172.8) have indefinite useful lives. All intangibles with indefinite useful lives relate to the food retailing segment. Impairment of these intangibles is assessed at least annually on the same basis as goodwill (Note 12).

12. GOODWILL

	May 6, 2017	May 7, 2016
Opening balance	**$ 998.7**	$ 3,835.7
Additions from business acquisitions	**5.8**	39.8
Impairments	**(0.9)**	(2,878.5)
Other adjustments	**(0.2)**	1.7
Closing balance	**$ 1,003.4**	$ 998.7

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

	May 6, 2017	May 7, 2016
Atlantic	**$ 193.8**	$ 193.8
Lawtons	**17.1**	17.1
Ontario	**172.6**	172.2
Quebec	**617.5**	615.6
West	**2.4**	–
Total	**$ 1,003.4**	$ 998.7

Impairment of goodwill

Goodwill arising on business acquisitions is not amortized but is reviewed for impairment on an annual basis, or more frequently, if indicators that goodwill may be impaired exist. The Company's annual review of goodwill was performed during the third quarter of fiscal 2017, and resulted in an impairment of $0.9 being recorded (2016 – $2,878.5). In performing the review, the Company determined the recoverable amount of the CGU to which goodwill relates based on FVLCD. The key assumptions used by management to determine the fair value of the CGU includes industry earnings multiples in a range from 7.0 to 12.5 and is classified as Level 2 on the fair value hierarchy.

During fiscal 2016, management determined there were indicators of impairment in the West business unit as a result of the significant operational challenges the Company has experienced under the Safeway banner, the outcome of the property and equipment impairment test (Note 9), and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. For its impairment reviews, management determined the recoverable amount of the CGUs based on VIU calculations which require the use of certain key assumptions. VIU was calculated from cash flow projections for five years using financial data from the Company's most up-to-date internal forecasts and budgets that were formally approved by management. Given the risks related to expected variations in the cash flows and the uncertainty the Company is experiencing in the West business unit the present value of the expected future cash flows used in the VIU calculation reflects the weighted average of the most probable outcomes. Cash flows beyond the five-year period are extrapolated using the estimated growth rates for the retail grocery industry in the particular market and the long-term economic growth of the country. Management estimates its pre-tax discount rate based on the current market assessment of the time value of money and the risks specific to the CGU. The pre-tax discount rate used ranged from 12.5 percent to 16.5 percent which is derived from the Company's post-tax weighted average cost of capital. The post-tax discount rate used was 10.0 percent. The Company's operating margins are based on past performance and management's expectations for the future. Growth rates used to estimate future performance are generally consistent with forecasts included in industry reports in the relevant market and is in line with market data. The Company has assumed a 3.0 percent annual growth rate for its operating cash flows. A terminal growth rate of 3.0 percent was used to project cash flow beyond five years, which is consistent with forecasts included in industry reports.

13. INCOME TAXES

Income tax expense (recovery) 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 6, 2017	May 7, 2016
Earnings (loss) before income taxes	$ 215.0	$ (2,555.9)
Effective combined statutory income tax rate	27.0%	26.6%
Income tax expense (recovery) according to combined statutory income tax rate	58.1	(679.9)
Income taxes resulting from:		
Non-deductible items	1.3	7.3
Impairments of goodwill and long-lived assets	–	239.5
Non-taxable items	(4.0)	(3.1)
Change in tax rates and rate differential	(1.8)	(3.8)
Change in tax legislation	(7.7)	–
Other	(3.4)	(1.3)
Total income tax expense (recovery), combined effective tax rate of 19.8% (2016 – 17.3%)	$ 42.5	$ (441.3)

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

	May 6, 2017	May 7, 2016
Current tax expense	$ 96.3	$ 104.2
Deferred tax recovery:		
Origination and reversal of temporary differences	(52.0)	(541.7)
Change in tax rates	(1.8)	(3.8)
Total	$ 42.5	$ (441.3)

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

		Recognized in:			
May 6, 2017	Opening Balance	Other Comprehensive Income and Equity	Business Acquisitions	Net Earnings	Closing Balance
Accounts payable and accrued liabilities	$ 3.6	$ –	$ –	$ (7.3)	$ (3.7)
Employee future benefits	91.9	8.2	–	4.5	104.6
Equity	12.3	–	–	(4.4)	7.9
Goodwill and intangibles	293.6	–	(0.2)	(45.4)	248.0
Inventory	4.9	–	–	0.2	5.1
Investments	(33.1)	(0.2)	–	(0.7)	(34.0)
Long-term debt	14.2	–	–	(3.5)	10.7
Other assets	(0.6)	–	–	0.2	(0.4)
Other long-term liabilities	20.6	–	–	6.6	27.2
Property, equipment, and investment property	(58.4)	–	–	20.3	(38.1)
Provisions	86.9	–	–	(26.9)	60.0
Partnership deferral reserve	(8.2)	–	–	16.4	8.2
Losses	76.6	–	–	93.9	170.5
Other	0.2	–	–	(0.1)	0.1
	$ 504.5	$ 8.0	$ (0.2)	$ 53.8	$ 566.1
Recognized as:					
Deferred tax assets	$ 646.2	$ 8.2	$ –	$ 55.5	$ 709.9
Deferred tax liabilities	$ (141.7)	$ (0.2)	$ (0.2)	$ (1.7)	$ (143.8)

May 7, 2016	Opening Balance	Recognized in: Other Comprehensive Income and Equity	Recognized in: Business Acquisitions	Recognized in: Net Loss	Closing Balance
Accounts payable and accrued liabilities	$ 3.8	$ –	$ –	$ (0.2)	$ 3.6
Employee future benefits	96.9	(4.3)	–	(0.7)	91.9
Equity	11.3	–	–	1.0	12.3
Goodwill and intangibles	(199.7)	–	(0.5)	493.8	293.6
Inventory	5.2	–	–	(0.3)	4.9
Investments	(19.8)	(2.8)	–	(10.5)	(33.1)
Long-term debt	15.6	–	0.5	(1.9)	14.2
Other assets	(0.5)	–	–	(0.1)	(0.6)
Other long-term liabilities	16.8	–	–	3.8	20.6
Property, equipment, and investment property	(93.6)	–	(0.3)	35.5	(58.4)
Provisions	75.6	–	–	11.3	86.9
Partnership deferral reserve	2.9	–	–	(11.1)	(8.2)
Losses	52.3	–	–	24.3	76.6
Other	(0.4)	–	–	0.6	0.2
	$ (33.6)	$ (7.1)	$ (0.3)	$ 545.5	$ 504.5
Recognized as:					
Deferred tax assets	$ 110.9	$ (4.3)	$ –	$ 539.6	$ 646.2
Deferred tax liabilities	$ (144.5)	$ (2.8)	$ (0.3)	$ 5.9	$ (141.7)

As at May 6, 2017, the Company had approximately $615.0 of Canadian non-capital tax loss carry forwards, which expire between fiscal 2033 and 2037. The remaining deductable temporary differences do not expire under current income tax legislation. All deferred tax assets (including tax losses and other tax credits) have been recognized in the consolidated balance sheets as it is probable that future taxable income will be available to the company to utilize the benefits of those assets. The amount of deferred tax assets and deferred tax liabilities that are expected to be recovered or settled beyond the next 12 months is $421.1.

14. PROVISIONS

May 6, 2017	Lease Contracts	Legal	Environmental	Restructuring	Sales Price Adjustment	Total
Opening balance	$ 24.8	$ 7.7	$ 51.4	$ 150.5	$ 72.2	$ 306.6
Provisions made	16.3	5.8	1.6	22.3	–	46.0
Provisions used	(10.2)	(4.9)	(2.6)	(64.7)	(55.2)	(137.6)
Provisions reversed	(2.3)	(1.9)	(2.9)	(16.0)	(7.5)	(30.6)
Change due to discounting	1.3	–	1.5	4.2	2.5	9.5
Closing balance	$ 29.9	$ 6.7	$ 49.0	$ 96.3	$ 12.0	$ 193.9
Current	$ 13.5	$ 6.7	$ 2.6	$ 53.3	$ 12.0	$ 88.1
Non-current	16.4	–	46.4	43.0	–	105.8
Total	$ 29.9	$ 6.7	$ 49.0	$ 96.3	$ 12.0	$ 193.9

Lease contracts

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

Legal costs

Legal provisions relate to claims of $6.7 that are outstanding as at May 6, 2017 (2016 – $7.7) that arose in the ordinary course of business.

Environmental costs

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

Restructuring

Restructuring provisions include onerous leases and severance amounts related to the Company's initiatives to lower operating costs and improve financial performance, which include store network rationalization, distribution centre restructuring and the organizational realignment in the West. Discounting of restructuring related provisions has been calculated using a pre-tax discount rate of 7.0 percent.

Sales price adjustment

The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement, long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this asset purchase agreement, should actual purchases for the calendar year ending 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume-driven formula. During the year ended May 6, 2017, the Company paid $55.2 related to these long-term supply agreements where minimum purchase volume requirements for calendar 2016 were not met. Management continues to negotiate final settlement of these amounts. Discounting of the sales price adjustment provision has been calculated using a pre-tax discount rate of 7.0 percent.

15. LONG-TERM DEBT

	May 6, 2017	May 7, 2016
First mortgage loans, weighted average interest rate 5.13%, due 2021 – 2033	**$ 13.3**	$ 14.8
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	**100.0**	100.0
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	**175.0**	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	**125.0**	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	**150.0**	150.0
Sinking fund debenture, weighted average interest rate 11.63%, due 2016	**–**	5.6
Series 2013-1 Notes, interest rate 3.52%, due August 8, 2018	**500.0**	500.0
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	**500.0**	500.0
Senior unsecured notes, floating interest rate tied to bankers' acceptance rate, due July 14, 2016	**–**	300.0
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	**139.0**	159.6
Credit facilities due November 4, 2020, floating interest rate tied to bankers' acceptance rates	**125.0**	290.0
	1,827.3	2,320.0
Unamortized transaction costs	**(8.5)**	(10.7)
Finance lease obligations, weighted average interest rate 5.12%, due 2017 – 2040	**52.0**	58.1
	1,870.8	2,367.4
Less amount due within one year	**134.0**	350.4
	$ 1,736.8	$ 2,017.0

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.

Sobeys completed a private placement of $300.0 aggregate principal amount of floating rate senior unsecured notes in fiscal 2015 that matured on July 14, 2016 and were repaid.

On April 22, 2016, the Company extended the term of its $250.0 credit facility to a maturity date of November 4, 2020. As of May 6, 2017, the outstanding amount of the credit facility was $125.0 (2016 – $90.0). Interest payable fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or the London Interbank Offered Rate ("LIBOR").

Pursuant to an agreement dated April 29, 2016, Sobeys amended and restated its revolving term credit facility ("RT Facility"). The principal amount was increased from $450.0 to $650.0 and Sobeys' previous non-revolving, amortizing term credit facility was fully repaid and cancelled. As of May 6, 2017, the outstanding amount of the RT Facility was $ nil (2016 – $200.0), and Sobeys issued $46.3 in letters of credit against the RT Facility (2016 – $54.5). Interest payable on the RT Facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or LIBOR, and the facility matures on November 4, 2020.

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

2018	$ 118.2
2019	512.6
2020	23.1
2021	133.4
2022	6.5
Thereafter	1,033.5

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
2018	$ 18.3	$ 2.5	$ 15.8
2019	9.3	2.0	7.3
2020	7.8	1.6	6.2
2021	5.4	1.3	4.1
2022	3.7	1.1	2.6
Thereafter	21.9	5.9	16.0
Total	$ 66.4	$ 14.4	$ 52.0

During fiscal 2017 the Company increased its finance lease obligation by $7.5 (2016 – $3.7) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

16. OTHER LONG-TERM LIABILITIES

	May 6, 2017	May 7, 2016
Deferred lease obligation	**$ 127.2**	$ 97.6
Deferred revenue	**9.1**	5.5
Other	**5.4**	5.6
Total	**$ 141.7**	$ 108.7

17. EMPLOYEE FUTURE BENEFITS

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

Defined contribution pension plans

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

Defined benefit pension plans

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

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

Interest rate risk

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

Mortality risk

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

Salary risk

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

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

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plans	December 31, 2016	December 31, 2019
Senior Management Pension Plans	December 31, 2016	December 31, 2019
Other Benefit Plans	January 1, 2016	January 1, 2019

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 percent of employees in the Company and of its franchisees and affiliates participate in these plans. Defined benefit multi-employer pension plans are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plans is not available due to the size and number of contributing employers in the plans. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements. The contributions made by the Company to multi-employer plans are expensed as contributions are due.

During the year ended May 6, 2017, the Company recognized an expense of $45.1 (2016 – $44.4) in operating income (loss), which represents the contributions made in connection with multi-employer pension plans. During fiscal 2018, the Company expects to continue to make contributions into these multi-employer pension plans.

Other benefit plans

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

Defined contribution plans

The total expense, and cash contributions, for the Company's defined contribution plans was $32.1 for the year ended May 6, 2017 (2016 – $30.3).

Defined benefit plans

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

	Pension Benefit Plans		Other Benefit Plans	
	May 6, 2017	May 7, 2016	**May 6, 2017**	May 7, 2016
Defined benefit obligation				
Balance, beginning of year	**$ 871.2**	$ 904.8	**$ 152.6**	$ 180.7
Current service cost, net of employee contributions	**2.3**	4.4	**3.2**	3.8
Interest cost	**29.4**	30.7	**5.2**	6.4
Benefits paid	**(57.7)**	(59.7)	**(5.2)**	(6.8)
Past service costs – curtailments	**1.5**	(9.1)	**–**	(1.3)
Settlements	**1.0**	(2.2)	**–**	–
Termination benefits	**2.8**	–	**–**	–
Remeasurement – actuarial losses (gains) included in other comprehensive (loss) income	**39.8**	2.3	**8.5**	(30.2)
Balance, end of year	**$ 890.3**	$ 871.2	**$ 164.3**	$ 152.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Pension Benefit Plans		Other Benefit Plans	
	May 6, 2017	May 7, 2016	**May 6, 2017**	May 7, 2016
Plan assets				
Fair value, beginning of year	**$ 687.0**	$ 734.4	**$ –**	$ –
Interest income on plan assets	**23.1**	24.7	**–**	–
Remeasurement return on plan assets (excluding amount in net interest)	**19.6**	(17.8)	**–**	–
Employer contributions	**9.8**	9.3	**5.2**	6.8
Benefits paid	**(57.7)**	(59.7)	**(5.2)**	(6.8)
Settlements	**–**	(2.2)	**–**	–
Administrative costs	**(1.2)**	(1.7)	**–**	–
Fair value, end of year	**$ 680.6**	$ 687.0	**$ –**	$ –

	Pension Benefit Plans		Other Benefit Plans	
	May 6, 2017	May 7, 2016	**May 6, 2017**	May 7, 2016
Funded status				
Total fair value of plan assets	**$ 680.6**	$ 687.0	$ –	$ –
Present value of unfunded obligations	**(95.7)**	(93.6)	(164.3)	(152.6)
Present value of partially funded obligations	**(794.6)**	(777.6)	–	–
Accrued benefit liabilities	**$ (209.7)**	$ (184.2)	$ (164.3)	$ (152.6)

	Pension Benefit Plans		Other Benefit Plans	
	May 6, 2017	May 7, 2016	**May 6, 2017**	May 7, 2016
Expenses				
Current service cost, net of employee contributions	**$ 2.3**	$ 4.4	**$ 3.2**	$ 3.8
Net interest on net defined benefit liability	**6.3**	6.0	**5.2**	6.4
Administrative costs	**1.2**	1.7	**–**	–
Past service costs – curtailments	**1.5**	(9.1)	**–**	(1.3)
Termination benefits	**2.8**	–	**–**	–
Settlement loss	**1.0**	–	**–**	–
Costs	**$ 15.1**	$ 3.0	$ **8.4**	$ 8.9

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 (loss).

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

	Pension Benefit Plans		Other Benefit Plans	
	May 6, 2017	May 7, 2016	**May 6, 2017**	May 7, 2016
Remeasurement effects recognized in other comprehensive (loss) income				
Return on plan assets (excluding amounts in net interest)	**$ (19.6)**	$ 17.8	**$ –**	$ –
Actuarial (gain) loss – experience changes	**(1.2)**	0.8	**(0.1)**	(34.6)
Actuarial loss – demographic assumptions	**2.4**	–	**–**	–
Actuarial loss – financial assumptions	**38.6**	1.5	**8.6**	4.4
Remeasurement effects recognized in other comprehensive (loss) income	**$ (20.2)**	$ (20.1)	$ **(8.5)**	$ 30.2

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 6, 2017):

	Pension Benefit Plans		Other Benefit Plans	
	May 6, 2017	May 7, 2016	**May 6, 2017**	May 7, 2016
Discount rate	**3.25%**	3.50%	**3.25%**	3.50%
Rate of compensation increase	**3.50%**	3.50%		

For measurement purposes, a 5.75 percent fiscal 2017 annual rate of increase in the per capita cost of covered health care benefits was assumed (2016 – 6.00 percent). The cumulative rate expectation to 2020 and thereafter is 5.00 percent.

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

The table below outlines the sensitivity of the fiscal 2017 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	Pension Benefit Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost[1]	Benefit Obligations	Benefit Cost[1]
Discount rate[2]	3.25%	3.25%	3.25%	3.25%
Impact of: 1% increase	$ (111.4)	$ (3.5)	$ (20.6)	$ 0.2
Impact of: 1% decrease	$ 139.8	$ 2.1	$ 25.5	$ (0.4)
Growth rate of health care costs[3]			5.75%	5.75%
Impact of: 1% increase			$ 19.2	$ 1.2
Impact of: 1% decrease			$ (15.9)	$ (1.0)

(1) Reflects the impact on the current service cost, interest cost, and net interest on defined benefit liability (asset).
(2) Based on weighted average of discount rates related to all plans.
(3) Gradually decreasing to 5.00 percent in 2020 and remaining at that level thereafter.

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

	May 6, 2017	May 7, 2016
Canadian equity funds	**8.8%**	10.3%
Foreign equity funds	**11.7%**	8.6%
Fixed income funds	**79.2%**	80.9%
Net working capital	**0.3%**	0.2%
Total investments	**100.0%**	100.0%

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

	May 6, 2017	**% of Plan Assets**	May 7, 2016	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	**$ 8.9**	**1.3%**	$ 10.8	1.6%

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 $41.5 for the year ended May 6, 2017 (2016 – $5.2).

Management's best estimate of contributions expected to be paid to the defined benefit pension plans during the annual period beginning on May 7, 2017 and ending on May 5, 2018 is $23.3.

18. CAPITAL STOCK

	Number of Shares	
Authorized	**May 6, 2017**	May 7, 2016
2002 Preferred shares, par value of $25 each, issuable in series	**991,980,000**	991,980,000
Non-Voting Class A shares, without par value	**768,105,849**	768,105,849
Class B common shares, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding	Number of Shares	May 6, 2017	May 7, 2016
Non-Voting Class A	**173,537,901**	**$ 2,037.8**	$ 2,037.8
Class B common	**98,138,079**	**7.3**	7.3
Shares held in trust	**(555,409)**	**(10.7)**	–
Total		**$ 2,034.4**	$ 2,045.1

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

During fiscal 2017, the Company paid common dividends of $111.3 (2016 – $109.4) to its equity holders. This represents a payment of $0.41 per share (2016 – $0.40 per share) for common share holders.

During the second quarter of fiscal 2017, the Company established a trust fund to facilitate the purchase of Non-Voting Class A shares for the future settlement of vested units under the Company's equity settled stock-based compensation plans. Contributions to the trust fund and the Non-Voting Class A shares purchased are held by CST Trust Company as trustee. The trust fund is an SE and as such the accounts of the trust fund are included in the consolidated financial statements of the Company. During fiscal 2017, the trust fund purchased 555,409 Non-Voting Class A shares for $10.7. These Non-Voting Class A shares have been recorded as a reduction to both capital stock and the weighted average number of common shares outstanding.

Share split

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

Normal course issuer bid

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

On March 14, 2016, the Company filed a notice of intent with the TSX to purchase for cancellation up to 5,206,137 Non-Voting Class A shares, representing approximately three percent of those outstanding. Purchases were to commence on March 17, 2016, and terminate on March 16, 2017. Empire did not repurchase any Non-Voting Class A shares since the date of notice.

19. OTHER INCOME (LOSS)

	May 6, 2017	May 7, 2016
Net gain (loss) on disposal of assets	**$ 23.0**	$ (39.6)
Lease revenue from owned property	**26.9**	31.7
Dilution losses	**(1.7)**	(3.0)
Total	**$ 48.2**	$ (10.9)

During fiscal 2016 management recognized a loss on sale of $70.9 related to disposed assets based on the sales price adjustment under the terms of the asset purchase agreement (Note 14).

20. EMPLOYEE BENEFITS EXPENSE

	May 6, 2017	May 7, 2016
Wages, salaries and other short-term employment benefits	**$ 3,078.3**	$ 3,058.0
Post-employment benefits	**44.2**	29.8
Termination benefits	**14.9**	3.6
Total	**$ 3,137.4**	$ 3,091.4

21. FINANCE COSTS, NET

	May 6, 2017	May 7, 2016
Finance income		
Interest income from cash and cash equivalents	**$ 0.4**	$ 1.4
Fair value gains (losses) on forward contracts	**3.3**	(0.2)
Investment income	**1.2**	1.2
Accretion income on loans and other receivables	**1.2**	0.7
Total finance income	**6.1**	3.1
Finance costs		
Interest expense on financial liabilities measured at amortized cost	**103.1**	113.8
Losses on cash flow hedges reclassified from other comprehensive (loss) income	**–**	0.2
Net pension finance costs	**11.5**	12.4
Accretion expense on provisions	**9.5**	14.1
Total finance costs	**124.1**	140.5
Finance costs, net	**$ 118.0**	$ 137.4

22. EARNINGS PER SHARE

	May 6, 2017	May 7, 2016
Weighted average number of shares – basic (Note 18)	**271,948,133**	273,851,466
Shares deemed to be issued for no consideration in respect of stock-based payments	**3,374**	195,738
Weighted average number of shares – diluted	**271,951,507**	274,047,204

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

23. BUSINESS ACQUISITIONS

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

The following table represents the amounts of identifiable assets and liabilities from resulting acquisitions for the year ended May 6, 2017 and May 7, 2016:

	May 6, 2017	May 7, 2016
Stores and retail gas locations		
Receivables	**$ –**	$ 12.0
Inventories	**7.0**	17.5
Property and equipment	**5.6**	20.2
Intangibles	**3.0**	7.0
Goodwill	**5.8**	39.8
Provisions	**–**	(0.5)
Other liabilities	**–**	(5.3)
	21.4	90.7
Prescription files		
Intangibles	**0.5**	–
Cash consideration	**$ 21.9**	$ 90.7

From the date of acquisition, the businesses acquired contributed sales of $104.3 and net earnings of $ nil for the year ended May 6, 2017.

Co-op Atlantic acquisition

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

During fiscal 2016, management finalized the purchase price allocation related to the Co-op Atlantic acquisition. As a result, the consolidated balance sheet as at May 6, 2017 includes the following fair value of the identifiable assets acquired and liabilities assumed:

Receivables	$	11.8
Inventories		9.4
Property and equipment		7.8
Intangibles		0.9
Provisions		(0.5)
Other liabilities		(4.8)
Total identifiable net assets	$	24.6
Excess consideration paid over identifiable net assets acquired allocated to goodwill	$	16.8

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

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

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

24. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

Franchisees and affiliates

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

Sobeys had a guarantee contract under the terms of which, should certain franchisees and affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 or 9.9 percent (2016 – $7.0 or 9.9 percent) of the authorized and outstanding obligation. During the year ended May 6, 2017, the guarantee contract expired.

Sobeys had guaranteed certain equipment leases of its franchisees and affiliates. Under the terms of the guarantee should franchisees and affiliates be unable to fulfill their equipment lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $145.0 on a cumulative basis. During the year ended May 6, 2017, the guarantee contract expired.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain franchisees and affiliates for the purchase and installation of equipment. Under the terms of the contract, should franchisees and affiliates be unable to fulfill their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 or 10.0 percent (2016 – $6.0 or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to provide a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain franchisees and affiliates. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SEs. As at May 6, 2017, the amount of the guarantee was $6.0 (2016 – $6.0).

Other

At May 6, 2017, the Company was contingently liable for letters of credit issued in the aggregate amount of $62.2 (2016 – $66.6).

Sobeys, through its subsidiaries, has guaranteed the payment of obligations under certain commercial development agreements. As at May 6, 2017, Sobeys has guaranteed $43.5 (2016 – $43.5) in obligations related to these agreements.

Upon entering into the lease of its Mississauga distribution centre, in March 2000, Sobeys guaranteed to the landlord the performance, by SERCA Foodservice Inc., of all its obligations under the lease. The remaining term of the lease is three years with an aggregate obligation of $10.4 (2016 – $13.4). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Operating leases, as lessee

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

The total net, future minimum rent payable under the Company's operating leases as of May 6, 2017 is approximately $4,450.1. This reflects a gross lease obligation of $5,330.5 reduced by expected sub-lease income of $880.4. 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
2018	$ 257.7	$ 359.6	$ 148.0	$ 148.0
2019	240.6	332.6	143.7	143.7
2020	222.5	308.1	142.5	142.5
2021	200.9	280.2	142.9	142.9
2022	176.7	248.7	142.7	142.7
Thereafter	986.3	1,435.9	1,645.6	1,645.6

The Company recorded $566.1 (2016 – $542.3) as an expense for minimum lease payments for the year ended May 6, 2017 in the consolidated statements of earnings (loss). The expense was offset by sub-lease income of $104.9 (2016 – $115.8), and a further $13.1 (2016 – $12.3) of expense was recognized for contingent rent.

Operating leases, as lessor

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

Rental income for the year ended May 6, 2017 was $26.2 (2016 – $31.4) and was recognized within other income (loss) in the consolidated statements of earnings (loss). In addition, the Company recognized $0.3 of contingent rent for the year ended May 6, 2017 (2016 – $0.3).

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

	Third Parties
2018	$ 20.6
2019	19.3
2020	17.2
2021	15.3
2022	14.1
Thereafter	95.6

Contingent liabilities

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to Lumsden Brothers Limited, a wholesale subsidiary of Sobeys, and the Goods and Service Tax ("GST"). The reassessment related to GST on sales of tobacco products to status Indians. CRA asserts that Sobeys was obliged to collect GST on sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was $13.6 (2016 – $13.6). Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. The matter is still under dispute and Sobeys has filed a Notice of Appeal with the Tax Court of Canada. Accordingly, Sobeys has not recorded in its statements of earnings (loss) any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as an other long-term receivable from CRA pending resolution of the matter.

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

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

25. FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, receivables, loans and other receivables, derivative contracts and guarantees.

The Company's maximum exposure to credit risk corresponds to the carrying amount for all cash and cash equivalents, loans and receivables, and guarantee contracts for franchisees and affiliates (Note 24).

The Company mitigates credit risk associated with its trade receivables, and loans receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. The Company regularly monitors collection performance and pledged security for all of its receivables and loans and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building, as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with counterparties that are dual rated by recognized credit rating agencies 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 6, 2017	May 7, 2016
0 – 30 days	$ **342.7**	$ 410.7
31 – 90 days	**23.3**	31.5
Greater than 90 days	**75.2**	73.1
Total receivables before allowance for credit losses	**441.2**	515.3
Less: allowance for credit losses	**(27.6)**	(25.9)
Receivables	$ **413.6**	$ 489.4

Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses in the consolidated statements of earnings (loss). Receivables are classified as current on the consolidated balance sheet as of May 6, 2017.

Allowance for credit losses is reviewed at each balance sheet date. An allowance is taken on receivables from independent accounts, as well as receivables, loans and other receivables from franchisee or affiliate locations and is recorded as a reduction to its respective receivable account on the consolidated balance sheets. The Company updates its estimate for credit losses based on past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchisee or affiliate locations. Current and long-term receivables, loans and other receivables are reviewed on a regular 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 (loss) and is presented as follows:

	May 6, 2017	May 7, 2016
Allowance, beginning of year	$ **25.9**	$ 21.8
Provision for losses	**5.4**	9.9
Recoveries	**(0.4)**	(0.8)
Write-offs	**(3.3)**	(5.0)
Allowance, end of year	$ **27.6**	$ 25.9

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 6, 2017:

	2018	2019	2020	2021	2022	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	$ 2.4	$ 2.4	$ 12.9	$ –	$ –	$ –	$ 17.7
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	2,230.2	–	–	–	–	–	2,230.2
Long-term debt	219.7	585.9	89.5	195.0	64.7	1,476.6	2,631.4
Total	$ 2,452.3	$ 588.3	$ 102.4	$ 195.0	$ 64.7	$ 1,476.6	$ 4,879.3

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that the Company would receive to sell financial assets or pay to transfer financial liabilities in an orderly transaction between market participants at the measurement date.

The book value of cash and cash equivalents, receivables, current portion of loans and other receivables, and accounts payable and accrued liabilities approximate fair values at the balance sheet dates due to the short term maturity of these instruments.

The book value of the long-term portion of loans and other receivables, and investments approximate fair values at the balance sheet dates due to the current market rates associated with these instruments.

The fair value of the variable rate long-term debt is assumed to approximate its carrying amount based on current market rates and consistency of credit spread. The fair value of long-term debt has been estimated by discounting future cash flows at a rate offered for borrowings of similar maturities and credit quality.

The fair value of derivative financial assets and liabilities, classified as Level 2, is estimated using valuation models that utilize market based observable inputs. Management believes that its valuation technique is appropriate.

There were no transfers between classes of the fair value hierarchy during the year ended May 6, 2017.

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

Long-term debt	**May 6, 2017**	May 7, 2016
Total carrying amount	**$ 1,870.8**	$ 2,367.4
Total fair value	**$ 1,893.0**	$ 2,489.4

As at May 6, 2017, the fair value hierarchy includes financial assets at fair value through profit or loss of $ nil, $1.1, and $ nil for Levels 1, 2 and 3 respectively (2016 – $ nil, $2.1, and $ nil).

As at May 6, 2017, the fair value hierarchy includes financial assets at available for sale of $25.1 in Level 1 (2016 – $24.7).

As at May 6, 2017, the fair value hierarchy includes financial liabilities at fair value through profit or loss of $ nil, $0.9, and $ nil for Levels 1, 2 and 3 respectively (2016 – $ nil, $0.9, and $ nil).

Derivative financial instruments

Derivative financial instruments are recorded on the consolidated balance sheets at fair value unless the derivative instrument is a contract to buy or sell a non-financial item in accordance with the Company's expected purchase, sale or usage requirements, referred to as a "normal purchase" or "normal sale". Changes in the fair values of derivative financial instruments are recognized in net earnings or loss unless it qualifies and is designated as an effective cash flow hedge or a normal purchase or normal sale. Normal purchases and normal sales are exempt from the application of the standard and are accounted for as executory contracts. Changes in fair value of a derivative financial instrument designated as a cash flow hedge are recorded in other assets and other long-term liabilities with the effective portion recorded in other comprehensive income or loss.

Cash flow hedges

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

As of May 6, 2017, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of $1.1 (2016 – $2.1) and liabilities of $0.9 (2016 – $0.9).

Cash flows from cash flow hedges are expected to flow over the next three years until fiscal 2020, and are expected to be recognized in net earnings or loss over this period, and, in the case of foreign currency swaps, over the life of the related debt in which a portion of the initial cost is being hedged.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates.

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The majority of the Company's long-term debt is at fixed interest rates. Approximately 23.1 percent (2016 – 29.5 percent) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings or loss is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the year. For the year ending May 6, 2017, the Company's average outstanding unhedged floating rate debt was $493.1 (2016 – $689.1). An increase (decrease) of 25 basis points would have impacted net earnings (loss) by $0.9 ($0.9) (2016 – $1.2 ($1.2)) as a result of the Company's exposure to interest rate fluctuations on its unhedged floating rate debt.

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 foreign currencies. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. The Company does not consider its exposure to foreign currency exchange risk to be material.

The Company has entered into foreign currency forward contracts and foreign currency swaps for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in net earnings or loss in future accounting periods.

The Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net earnings (loss) by $ nil ($ nil) (2016 – $ nil ($ nil)) and other comprehensive (loss) income by $1.3 ($1.3) (2016 – $6.0 ($6.0)) for foreign currency derivatives in place at year end.

During the year ended May 7, 2016, Sobeys entered into seven Euro/Canadian dollar forward contracts at an approximate Canadian dollar value at inception of $68.6. The forward contracts were entered into to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in Euros. The forward contracts matured on March 1, 2017.

Market risk

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in the price of the investment. The Company estimates that a 10 percent change in the market value of its investments that trade on a recognized stock exchange would impact net earnings (loss) by $ nil (2016 – $ nil) and other comprehensive (loss) income by $2.2 (2016 – $2.1).

26. SEGMENTED INFORMATION

The Company's reportable segments are Food retailing and Investments and other operations, which is based on the Company's management and internal reporting structure. The Food retailing segment is comprised of five operating segments: Sobeys West, Sobeys Ontario, Sobeys Quebec, Sobeys Atlantic, and Sobeys Pharmacy Group. These operating segments have been aggregated into one reportable segment, "Food retailing", as they all share similar economic characteristics such as: product offerings, customer base and distribution methods. The Investments and other operations segment principally consists of investments, at equity, in Crombie REIT, real estate partnerships, and various other corporate operations.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Each of these operating segments is managed separately as each of these segments requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measurement policies the Company uses for segment reporting under IFRS 8, "Operating Segments", are the same as those used in its consolidated financial statements.

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

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

	May 6, 2017	May 7, 2016
Segmented operating income (loss)		
Food retailing	**$ 259.3**	$ (2,509.2)
Investments and other operations		
Crombie REIT	**41.5**	38.9
Real estate partnerships	**35.1**	46.7
Other operations, net of corporate expenses	**(2.9)**	5.1
	73.7	90.7
Total	**$ 333.0**	$ (2,418.5)

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

	May 6, 2017	May 7, 2016
Total operating income (loss)	**$ 333.0**	$ (2,418.5)
Finance costs, net	**118.0**	137.4
Total	**$ 215.0**	$ (2,555.9)

	May 6, 2017	May 7, 2016
Total assets by segment		
Food retailing	**$ 7,949.9**	$ 8,463.3
Investments and other operations	**745.6**	675.2
Total	**$ 8,695.5**	$ 9,138.5

27. STOCK-BASED COMPENSATION

Performance share unit plan

The Company awarded certain employees a target number of performance share units ("PSUs") that track the Company's Non-Voting Class A share prices over a three-year period. The number of PSUs that vest under an award, for the most part, is dependent on time and the achievement of specific performance measures. Upon vesting, each employee is entitled to receive Non-Voting Class A shares equal to the number of their vested PSUs. The weighted average fair value of $19.23 per PSU issued in the current year was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$20.16
Expected life	2.27 years
Risk-free interest rate	0.73%
Expected volatility	19.48%
Dividend yield	2.07%

At May 6, 2017, there were 861,933 (2016 – 939,555) PSUs outstanding. The compensation expense for the year ended May 6, 2017 was $ nil (2016 – $1.2).

Stock option plan

During fiscal 2017, the Company granted 1,642,700 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. On September 28, 2015, the Company completed a three-for-one share split. The number of outstanding options, weighted average fair value of options, and share price have been restated to reflect the three-for-one share split. The weighted average fair value of $2.92 per option issued during the year was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$20.40
Expected life	7.92 years
Risk-free interest rate	0.68%
Expected volatility	19.17%
Dividend yield	2.02%

The compensation cost for the year ended May 6, 2017 was $3.3 (2016 – $3.6) 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 $3.3 (2016 – $3.6).

The outstanding options at May 6, 2017 were granted at prices between $15.60 and $30.87 and expire between May 2018 and June 2024 with a weighted average remaining contractual life of 5.46 years. Stock option transactions during fiscal 2017 and 2016 were as follows:

	2017			2016		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	**3,655,322**	**$**	**25.94**	3,364,995	$	24.86
Granted	**1,642,700**		**20.40**	753,845		30.13
Exercised	**–**		**–**	(135,712)		20.09
Forfeited	**(348,159)**		**23.51**	(327,806)		26.90
Balance, end of year	**4,949,863**	**$**	**24.27**	3,655,322	$	25.94
Stock options exercisable, end of year	**3,334,369**			2,206,342		

The following table summarizes information about stock options outstanding at May 6, 2017:

	Options Outstanding				Options Exercisable		
Year Granted	**Number of Outstanding Options**	**Weighted Average Remaining Contractual Life(1)**		**Weighted Average Exercise Price**	**Number Exercisable at May 6, 2017**		**Weighted Average Exercise Price**
2011	**14,418**	**1.15**	**$**	**17.33**	**14,418**	**$**	**17.33**
2012	**10,392**	**2.16**		**18.13**	**10,392**		**18.13**
2013	**14,262**	**3.16**		**17.98**	**14,262**		**17.98**
2014	**1,992,568**	**4.16**		**26.30**	**1,992,568**		**26.30**
2015	**844,957**	**5.17**		**22.43**	**633,717**		**22.43**
2016	**602,778**	**6.17**		**30.10**	**301,390**		**30.10**
2017	**1,470,488**	**7.18**		**20.36**	**367,622**		**20.36**
Total	**4,949,863**	**5.46**	**$**	**24.27**	**3,334,369**	**$**	**25.15**

(1) Weighted average remaining contractual life is expressed in years.

Deferred stock unit plan

In the first quarter of fiscal 2017, the Company implemented a new employee deferred stock unit ("DSU") plan. The number of DSUs that vest is dependent on time and the achievement of specific performance measures. At May 6, 2017 there were 578,444 (2016 – nil) DSUs outstanding related to this plan and the total carrying amount of the liability was $1.9 (2016 – $ nil). The compensation expense during the year ended May 6, 2017 was $1.9 (2016 – $ nil) with the amortization of the cost over the vesting period of three years.

Members of the Board of Directors may elect to receive all or any portion of their fees in DSUs in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each directors' fee payment date. Additional DSUs are received as dividend equivalents. At May 6, 2017 there were 263,199 (2016 – 426,792) DSUs outstanding and the total carrying amount of the liability was $5.7 (2016 – $9.0). During the year ended May 6, 2017, the compensation expense (reversal) was $1.5 (2016 – $(2.1)).

Under both plans, vested DSUs cannot be redeemed until the holder is no longer a director of the Company or the employee has retired or leaves 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 (loss).

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 Resource ("HR") Committee. Grants vest over a four-year period at a rate of 25 percent per year. The PPOP contains a liquidity provision which allows for partial payouts of the 'in-the-money' position during the performance period. During fiscal 2014, the plan was converted to a cash settled share based payment with the growth calculation based on the five day average Empire Non-Voting Class A share value following the announcement of the Company's fiscal financial performance compared to the five day average following the announcement of the Company's fiscal financial performance of the preceding year. At May 6, 2017, there were 683,652 options (2016 – 1,497,393) outstanding and the carrying amount of the liability associated with these options was $ nil (2016 – $ nil).

Share Purchase Plan

The Company has a share purchase plan for employees of the Company whereby loans may be 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. At May 6, 2017, the outstanding loan balance was $ nil (2016 – $0.5).

28. RELATED PARTY TRANSACTIONS

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

The Company leased certain real property from Crombie REIT during the year at amounts which in management's opinion approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value based on the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases, which are measured at exchange amounts, totaled approximately $195.8 (2016 – $164.9).

Crombie REIT provides administrative and management services to the Company on a fee for service basis pursuant to a Management Agreement effective January 1, 2016. The Management Agreement replaces the previous arrangement where charges incurred were on a cost recovery basis.

At May 6, 2017, investments included $25.1 (2016 – $24.7) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of $1.2 for the year ended May 6, 2017 (2016 – $1.2). These amounts are included in finance costs, net in the consolidated statements of earnings (loss).

On June 29, 2016, Sobeys and its wholly-owned subsidiaries closed an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Crombie REIT also invested approximately $58.8 in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. In addition to cash, Crombie REIT issued to a subsidiary of Sobeys $93.4 in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. The subsidiary of Sobeys subsequently sold its Class B LP units to Empire on a tax deferred basis. Total net cash proceeds to the Company and its wholly-owned subsidiaries from these transactions with Crombie REIT were $323.8, resulting in a pre-tax loss of $0.8 which has been recognized in the consolidated statements of earnings (loss). Proceeds from the transactions were used to repay the senior unsecured notes.

On July 29, 2016, Sobeys, through a wholly-owned subsidiary, sold and leased back an additional property from Crombie REIT for cash consideration of $26.4. This resulted in a pre-tax gain of $2.1, which has been recognized in the consolidated statements of earnings (loss). Sobeys also purchased one property from Crombie REIT for $9.1.

During 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 bore interest at a rate of 6.0 percent and had no principal repayments. On May 5, 2017, the Company sold the property to Crombie REIT for cash consideration of $31.1, resulting in a pre-tax gain of $1.0, which has been recognized in the consolidated statements of of earnings (loss). Proceeds from the transaction were used to repay the loan.

During the year ended May 7, 2016, Crombie REIT and a wholly-owned subsidiary of the Company negotiated an extension of a rental income guarantee and put option on a property Crombie REIT acquired from the Company's subsidiary in 2006. The rental income

guarantee and put option were originally scheduled to mature in March 2016 and have been extended for a period of five years with either party having the ability to terminate the agreements with written notice.

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

Key management personnel compensation

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

Key management personnel compensation is comprised of:

	May 6, 2017	May 7, 2016
Salary, bonus and other short-term employee benefits	$ 9.7	$ 9.6
Post-employment benefits	1.6	1.9
Termination benefits	8.7	1.5
Share-based payments	14.8	6.1
Total	$ 34.8	$ 19.1

Indemnities

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

29. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of the Company. There have been no changes to the Company's objectives during the year ended May 6, 2017.

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 6, 2017	May 7, 2016
Long-term debt due within one year	$ 134.0	$ 350.4
Long-term debt	1,736.8	2,017.0
Funded debt	1,870.8	2,367.4
Less cash and cash equivalents	(207.3)	(264.7)
Net funded debt	1,663.5	2,102.7
Shareholders' equity, net of non-controlling interest	3,644.2	3,623.9
Capital under management	$ 5,307.7	$ 5,726.6

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 incurrence 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 6, 2017	May 7, 2016
Funded debt to total capital(1)	**33.9%**	39.5%
Funded debt to EBITDA(2)	**2.4 x**	(1.2)x
EBITDA to interest expense(2)	**7.5 x**	(17.1)x

(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 and 53 week periods then ended. EBITDA consists of operating income plus depreciation and amortization of intangibles, while interest expense consists of interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income or loss.

Under the terms of existing debt agreements, three financial covenants are monitored and communicated 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 and 53 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 and 53 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 and 53 weeks). The Company was in compliance with these covenants during the year.

30. SUBSEQUENT EVENTS

On May 11, 2017, the unitholders of Crombie REIT approved a tax reorganization that will eliminate wholly-owned corporate subsidiaries being subject to corporate income taxes. This tax reorganization is not expected to have a significant impact on the financial position of the Company.

On June 2, 2017, Sobeys entered a new, senior, unsecured non-revolving credit facility for $500.0. The facility bears floating interest tied to Canadian prime rate or bankers' acceptance rates. The financing is intended to be used to repay long-term debt due in calendar 2018.

On June 2, 2017, Crombie REIT announced that it had exercised its right to redeem its 5.00% Series D Convertible Unsecured Subordinated Debentures. The redemption will be effective on July 4, 2017. Upon redemption, Crombie REIT will pay to the holders of debentures the redemption price equal to the outstanding principal amount and all accrued and unpaid interest. Empire currently holds a $25.1 investment in the Series D convertible debentures.

ELEVEN-YEAR FINANCIAL REVIEW

Year Ended[1]	2017	2016[2][3]	2015[2][3][4]	2014
Financial Results ($ in millions)				
Sales	**$ 23,806.2**	$ 24,618.8	$ 23,928.8	$ 20,957.8
Operating income (loss)	**333.0**	(2,418.5)	742.4	326.7
Finance costs, net	**118.0**	137.4	155.1	131.4
Income tax expense (recovery)	**42.5**	(441.3)	150.4	36.3
Non-controlling interest	**14.0**	16.4	17.9	8.0
Net earnings (loss)[6]	**158.5**	(2,131.0)	419.0	235.4
Adjusted net earnings from continuing operations[6][7]	**191.3**	410.2	511.0	390.6
Financial Position ($ in millions)				
Total assets	**8,695.5**	9,138.5	11,497.2	12,236.6
Long-term debt (excluding current portion)	**1,870.8**	2,367.4	2,284.1	3,275.8
Shareholders' equity[6]	**3,644.2**	3,623.9	5,986.7	5,700.5
Per Share Data on a Fully Diluted Basis ($ per share)				
Net earnings (loss)[6][8]	**0.58**	(7.78)	1.51	0.98
Adjusted net earnings from continuing operations[6]	**0.70**	1.50	1.84	1.62
Dividends				
Non-Voting Class A shares	**0.410**	0.400	0.360	0.347
Class B common shares	**0.410**	0.400	0.360	0.347
Book value	**13.41**	13.34	21.61	20.59
Share Price, Non-Voting Class A Shares ($ per share)				
High	**22.56**	30.79	31.60	27.75
Low	**15.00**	20.23	21.67	21.68
Close	**21.50**	21.09	29.15	22.88
Diluted weighted average number of shares outstanding (in millions)	**272.0**	274.0	277.2	240.6

(1) Fiscal years end the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc. Financial data for fiscal 2007 to 2010, with the exception of the balances noted for financial position for fiscal 2010, were prepared using CGAAP and have not been restated to IFRS. Fiscal 2011 and 2016 are 53-week years.

(2) Amounts have been reclassified to correspond to the current period presentation on the consolidated balance sheets.

(3) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of the MD&A for further detail.

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

(5) 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.

(6) Net of non-controlling interest.

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

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

	2013	2012	2011[5]	2010	2009	2008	2007
	$ 17,343.9	$ 16,249.1	$ 15,956.8	$ 15,516.2	$ 15,015.1	$ 14,065.0	$ 13,366.7
	573.2	534.3	525.7	479.7	466.2	472.6	431.1
	55.4	59.9	75.4	72.5	80.6	105.8	60.1
	136.4	122.3	122.0	99.1	115.4	125.9	116.9
	9.1	12.7	9.0	5.6	8.3	12.8	55.4
	379.5	339.4	400.6	301.9	264.7	315.8	205.8
	390.7	322.7	303.2	284.5	261.7	242.8	200.1
	7,140.4	6,913.1	6,518.6	6,248.3	5,891.1	5,729.4	5,241.5
	915.9	889.1	1,090.3	821.6	1,124.0	1,414.1	792.6
	3,724.8	3,396.3	3,162.1	2,952.4	2,678.8	2,378.8	2,131.1
	1.86	1.66	1.96	1.47	1.34	1.60	1.04
	1.91	1.58	1.48	1.39	1.33	1.23	1.01
	0.320	0.300	0.267	0.247	0.233	0.220	0.200
	0.320	0.300	0.267	0.247	0.233	0.220	0.200
	18.27	16.66	15.49	14.36	13.02	12.03	10.77
	22.88	21.00	19.71	17.98	18.26	18.40	15.08
	17.85	17.57	17.02	13.23	12.21	11.80	13.16
	22.86	19.21	18.05	17.66	16.33	13.08	14.11
	204.2	204.2	204.6	205.4	197.4	197.2	197.2

SHAREHOLDER AND INVESTOR INFORMATION

Empire Company Limited

115 King Street
Stellarton, Nova Scotia
B0K 1S0
Telephone: (902) 752-8371
Fax: (902) 755-6477
www.empireco.ca

Investor Relations and Inquiries

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

E-mail: investor.relations@empireco.ca

Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, AST Trust Company (Canada).

Affiliated Company Web Address

www.sobeyscorporate.com

Transfer Agent

AST Trust Company (Canada)
Investor Correspondence
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3
Telephone: 1-800-387-0825
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 AST Trust Company (Canada) at 1-800-387-0825 to eliminate the multiple mailings.

Shareholders' Annual General Meeting

September 14, 2017 at 11:00 a.m. (ADT)
Cineplex Cinemas
612 East River Road
New Glasgow, Nova Scotia

Dividend Record and Payment Dates for Fiscal 2018

Record Date	Payment Date
July 14, 2017	July 31, 2017
October 13, 2017*	October 31, 2017*
January 15, 2018*	January 31, 2018*
April 13, 2018*	April 30, 2018*

* Subject to approval by the Board of Directors.

Outstanding Shares

As at June 26, 2017	
Non-Voting Class A shares	173,537,901
Class B common shares, voting	98,138,079

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)

738,967

Bankers

The Bank of Nova Scotia
Bank of Montreal
Bank of Tokyo Mitsubishi UFJ (Canada)
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank Nederland
Royal Bank of Canada
The Toronto-Dominion Bank
Caisse Centrale Desjardins

Solicitors

Stewart McKelvey
Halifax, Nova Scotia

Auditors

PricewaterhouseCoopers, LLP
Halifax, Nova Scotia

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