

EMPIRE

COMPANY LIMITED

ANNUAL INFORMATION FORM

Year Ended May 7, 2016

July 20, 2016

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All disclosure for Empire Company Limited and its subsidiaries, ("Empire" or "the Company") including wholly-owned Sobeys Inc. ("Sobeys") is as of fiscal year-end, May 7, 2016, unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

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

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

- The Company's understanding of competitive, demographic, lifestyle, health and other trends and its ability to continue to adapt to these trends.

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

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

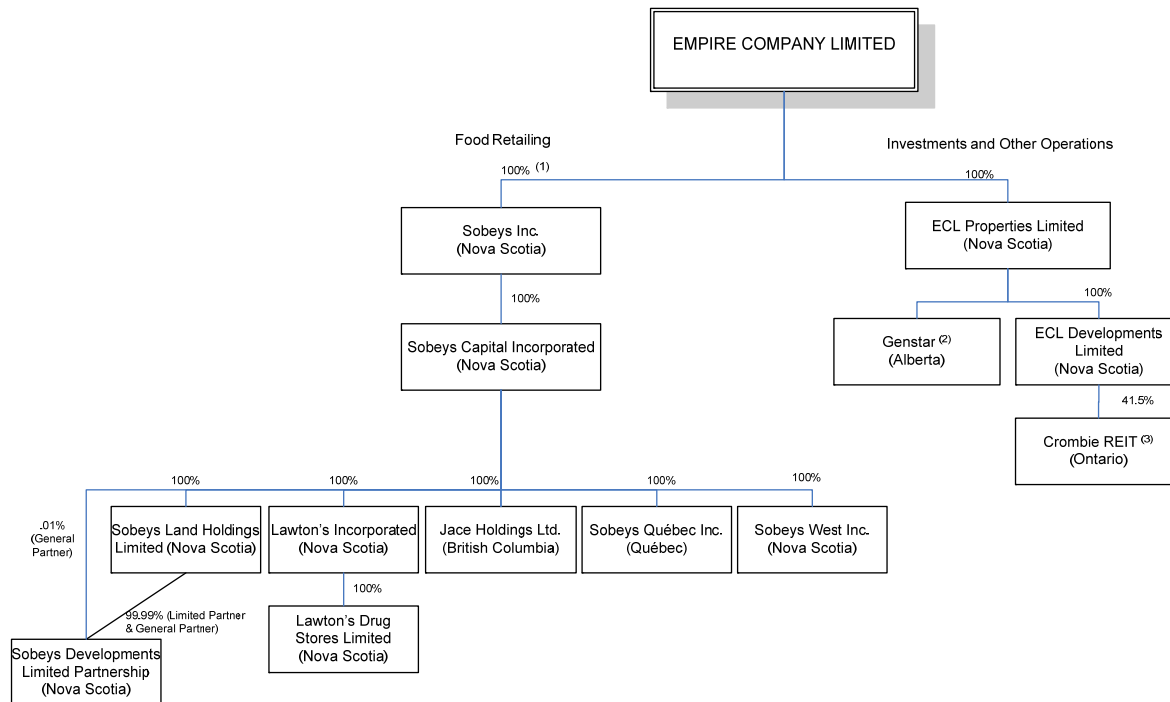
CORPORATE STRUCTURE

Name and Incorporation

Empire Company Limited was created by amalgamation under the *Companies Act* (Nova Scotia) on January 31, 1973. Predecessors of Empire had been carrying on business since 1907. Empire's head office is located at 115 King Street, Stellarton, Nova Scotia. In this AIF, "Empire" or the "Company" is used to refer collectively to Empire Company Limited and all of its subsidiaries, except where the context requires otherwise.

Intercorporate Relationships

The following chart shows the names of the principal subsidiaries of Empire, their respective jurisdictions of incorporation, and the percentages of voting and non-voting securities owned by Empire as of May 7, 2016.



Notes:

- (1) Empire owns 19.7% of Sobeys Inc. directly and the balance (80.3%) indirectly through its subsidiaries Emplink Investments Limited (Nova Scotia) and Empsafe Investments Limited (Nova Scotia).
- (2) ECL Properties Limited indirectly holds a 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 39.0 percent equity accounted interest in GDC Investments 4, L.P., a 42.1 percent equity accounted interest in GDC Investments 6, L.P., a 39.0 percent equity accounted interest in GDC Investments 7, L.P., a 43.7 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar").
- (3) Empire indirectly owns 909,090 Crombie Real Estate Investment Trust ("Crombie REIT") Units and 53,866,589 Class B Limited Partnership Units of Crombie Limited Partnership (Nova Scotia) which are exchangeable into and equivalent to units of Crombie REIT and represented a 41.5% indirect ownership interest in Crombie REIT as of May 7, 2016 (40.2% on a fully diluted basis). A Special Voting Unit of Crombie REIT is attached to each Class B Limited Partnership Unit.

DESCRIPTION OF THE BUSINESS

Empire Company Limited (TSX symbol: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia with \$24.6 billion in sales and \$9.1 billion in assets. Empire and its subsidiaries, franchisees and affiliates employ approximately 125,000 people.

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

The Company's historical success reflects the ongoing investment and improvement in the businesses it knows best – food retailing and related real estate.

The Company's financial results are segmented into two separate reportable segments: food retailing, through wholly-owned Sobeys, and investments and other operations which includes: (1) a 41.5 percent equity accounted interest in Crombie REIT; and (2) interests in Genstar. The Company's segmented financial information for fiscal 2016 and 2015 is contained in the "Consolidated Financial Statements", which is incorporated into this AIF by reference, a copy of which has been filed on SEDAR at www.sedar.com.

While Sobeys' passion for food, excellence in customer service and commitment to innovation have been instrumental to the Company's growth, so has its focus on related real estate. More than 50 years ago, the Company began to capitalize on the strategic advantages and investment potential that came from owning the property associated with Sobeys' growing retail network. Ever since, these two businesses have been the foundation of the Company's ability to create sustainable, long-term value.


















Food Retailing

Empire's food retailing business is carried on through its wholly-owned subsidiary, Sobeys, a leading national grocery retailer, which is headquartered in Stellarton, Nova Scotia. Sobeys, as of May 7, 2016, conducted business through close to 1,900 retail stores (corporate, franchise, affiliate) including more than 350 retail fuel locations, operating in every province and in over 900 communities across Canada.

Well Established, Differentiated Stores and Retail Banners

Sobeys will continue to go to market primarily through distinct store formats enabling Sobeys to better tailor its offering to the various customer segments it serves, with the goal of satisfying its current shoppers' requirements for food and related merchandise while earning the loyalty of more customers, resulting in higher sales and profit per square foot. Sobeys remains focused on improving the product, service and merchandising offering within each format by expanding and renovating its current store base, while continuing to build and acquire new stores.

Our food retailing business under Sobeys is made up of a diversified and complementary group of businesses – food, pharmacy, wholesale, liquor and fuel. Sobeys' eight major food retail banners are: Sobeys, Sobeys *extra*, IGA, IGA *extra*, Safeway, Thrifty Foods, Foodland and FreshCo. Our National Pharmacy Group operates under the in-store pharmacy banners - Sobeys Pharmacy, Safeway Pharmacy, Thrifty Foods Pharmacy, FreshCo. Pharmacy and Foodland Pharmacy, as well as free standing locations through Lawton's Drug Stores Limited. Our liquor banners in Western Canada are Sobeys Liquor, Safeway Liquor and Thrifty Foods Liquor. The Company operates its fuel locations under the Shell, Fast Fuel and Safeway banners. A description and number of banners are detailed in the following table.

Description	Banner	Count
		257
Stores that feature the broadest assortment of products and specialty items designed for each unique market served. These banners provide superior customer care from full service meat, deli and seafood counters plus value-added food knowledge provided by staff.		285
		183
		26
Stores that serve the "fresh fill-in" and "today's meal" needs of customers and are intended to provide superior service and customized offerings.		30
Stores that serve the "routine and fill-in" food shopping occasions for customers in rural and one-store communities		224
		89
Stores that serve customers with low prices every day where price is the driving factor for store selection.	 	88
Stores that serve the "on-the-go" convenience needs of customers	 	99
Pharmacy, health care, beauty, giftware and convenience store products		78 ⁽¹⁾
Fuel stations and related convenience stores	 	350 ⁽²⁾
Liquor stores	  	80
Includes various other store formats such as convenience stores in Québec	Various	106
Total		1895

Notes:

- (1) This number includes 75 Lawtons Drug Stores and three stand alone Home HealthCare locations.
- (2) This number does not include 57 Safeway co-located fuel sites or 21 co-branded convenience fuel locations.

A description of the geographic locations and banners of Sobeys' retail stores, including the number of franchised and corporate stores, is provided in the attached Appendix A.

Wholesale

In addition to distribution to corporate and franchised stores, Sobeys provides wholesale distribution of a full range of products and services to over 8,000 retail stores and independent wholesale accounts. Sobeys' wholesale business is operated as TRA Atlantic in Atlantic Canada, Multi-branch sector in Québec, Lumsden Brothers in Ontario and Macdonalds Consolidated in Western Canada, and includes a small number of "cash & carry" wholesale outlets in the West and Atlantic provinces to supply certain convenience store operators.

Private Label Brands

Sobeys' private label brands consist of three tiers: *Compliments*, *Sensations by Compliments* and *Signal*. *Compliments* is positioned as the national brand equivalent, *Sensations by Compliments* is positioned as the affordable indulgence tier and *Signal* is focused on satisfying the requirements of more price conscious customers by offering an assortment of everyday basics from paper products to frozen food.

Compliments' sub-brands include *Compliments Organics*, *Compliments Balance*, *Compliments Greencare*, *Compliments Gluten-Free*, and *Compliments Naturally Simple*. These five sub-brands along with the *Jamie Oliver by Compliments* brand provide healthy and better for you alternatives for our customers and ensure that the private label program is well aligned with Sobeys' *Better Food for All* positioning.

At the end of fiscal 2014, Sobeys had approximately 4,300 products under its portfolio of private label brands other than those acquired in the Canada Safeway acquisition. The Safeway private label program consisted of approximately 3,300 products over many different brands. Over the last two years, the two programs were integrated with the objective of leveraging the best of both Sobeys and Safeway. The end result generated over 500 new private label products and the continuation of two highly successful Safeway brands for all stores in Western Canada, Edwards (coffee) and Lucerne (a range of dairy products). At the end of fiscal 2016, Sobeys had approximately 5,100 products under its portfolio of private label brands.

Sobeys continues to utilize a consumer panel to test and rate the attributes of selected products, helping the Company formulate products that engage customers and drive loyalty. As well, customer loyalty data from the AIR MILES[®] reward program is used to make better, more informed, customer-centric decisions on the private label program.

Loyalty Reward Programs

Sobeys offers its customers a coast-to-coast loyalty reward program. The AIR MILES[®] reward program is offered at Sobeys *extra* (Atlantic, Ontario, West), Sobeys (Atlantic, Ontario, West), Safeway (West), Thrifty Foods (West), IGA *extra* (Québec), IGA (Québec, West), Foodland (Atlantic, Ontario), Lawtons (Atlantic), Sobeys Liquor, (West), Safeway Liquor (West), Thrifty Foods Liquor (West) and Needs (Atlantic). This reward program provides Sobeys' customers with discounts, personalized offers and communications, the opportunity to participate in contests, and other loyalty rewards, while providing the company with increased customer loyalty and insight into customer buying habits as part of an overall customer relationship management strategy. This program is further complemented by the BMO Sobeys AIR MILES[®] MasterCard and the BMO IGA AIR MILES[®] MasterCard.

Real Estate

Sobeys has a strong real estate development team to support the Company's overall growth strategy. The real estate objective is to improve our market share through expansions, renovations, and new stores, while continuing to identify long-term potential opportunities. Sobeys has determined that it makes sense to own or to keep control of our real estate development by acquiring land and buildings, to preserve future opportunities, to reposition stores, develop ancillary retail estate that will enhance our retail store productivity. We have the further competitive advantage to sell developed assets to Crombie REIT and reinvest cash-flow in the business.

Sobeys owns certain retail store locations and also leases stores from related parties and third-party landlords. At May 7, 2016, of the 37.8 million square feet of retail store space under operation, 15.6 percent was owned, 16.8 percent was leased from related parties and the balance was leased from third-party landlords.

Investments and Other Operations

Crombie REIT

Crombie REIT operates a diverse portfolio of commercial real estate with a primary holding of retail properties. Its objectives are to generate reliable and growing cash distributions, to enhance its asset base, and to increase cash available for distribution through accretive acquisitions. Crombie REIT is characterized by its primary focus on grocery and drug store-anchored retail properties, its long-term approach to operational management through the continued reinvestment in its portfolio, its conservative financial structure and the long-term growth opportunities provided through its relationship with Empire and its subsidiaries. Crombie REIT currently owns a portfolio of 261 retail and office properties across Canada, comprising approximately 17.1 million square feet, with a strategy to own and operate a portfolio of high quality grocery and drug store anchored shopping centres and freestanding stores primarily in Canada's top 36 markets.

As at May 7, 2016, the Company, through wholly-owned ECL Developments Limited, held a 41.5 percent equity accounted interest in Crombie REIT (40.2 percent on a fully diluted basis). The market value of its 41.5 percent ownership interest in Crombie REIT equaled \$786.0 million. In addition, the Company held \$24.7 million of Crombie REIT convertible unsecured subordinated debentures.

Pursuant to a development agreement dated March 23, 2006 between ECL Properties Limited ("ECL") and Crombie REIT, ECL provides Crombie REIT with a preferential right to acquire all property developments proposed to be undertaken by ECL. The agreement is for an initial 10-year term, subject to an extension reached by mutual agreement. In addition, pursuant to a Right of First Offer Agreement ("ROFO Agreement") dated August 3, 2011, the Company has agreed to provide to Crombie REIT a right of first offer to acquire any property that it intends to dispose of subject to certain exceptions.

Sobeys is Crombie REIT's largest tenant in terms of percentage contribution to total annual minimum rent, representing 50.6 percent of annual minimum rent.

The strong relationship between the Company and Crombie REIT represents an important strategic partnership that delivers benefits for both entities. The Company's ownership interest in Crombie REIT provides the benefits of commercial real estate ownership, including steady income growth and capital appreciation, with a like-minded partner. For Crombie REIT, the relationship provides preferred access to high-quality retail properties, in part through its right of first offer contained in the ROFO Agreement.

Related party transactions between the Company and Crombie REIT also include the provision of general management, financial, leasing and other administration support services to certain real estate properties for a management fee. The amounts paid and collected in fiscal 2016 were not material.

Genstar

Genstar is a residential real estate development company headquartered in San Diego, California, with Canadian offices in Ontario and across Western Canada. Genstar has an experienced and knowledgeable management team that focuses on attractive residential land holdings in select growth markets. Empire holds equity accounted interests ranging from approximately 39 percent to 49 percent in the Genstar group of companies.

Competition

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

strong national presence in the Canadian retail food and food distribution industry, operating in over 900 communities in Canada.

Sobeys real estate development operations and Empire, through its investment in Crombie REIT, compete with numerous other developers, managers and owners of real estate properties in seeking quality tenants and new properties to acquire. Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development.

See also “Risk Management – Competition”.

Other Information

Supply Chain and Product Availability

Sobeys’ retail stores are serviced through a network of retail support centres (distribution centres) located throughout the country. In addition, certain products are delivered directly to Sobeys’ stores by various vendors through a direct to store delivery process.

The Company has no material concerns with respect to product availability. The Company’s inventories are maintained using a large number of national, regional and local suppliers.

Intangible Properties

Sobeys is not dependent upon any single trademark or trade name, although some trademarks on corporate retail brands and store banner names are important to operations. Sobeys recognizes the importance of its corporate and brand trademarks and the need to protect and enhance their value. It is Sobeys’ practice to register or otherwise protect such intangible assets in all jurisdictions in which it operates.

Employees

At fiscal year-end 2016, Empire and its subsidiaries employed approximately 65,000 full-time and part-time employees. Empire and its subsidiaries, franchisees and affiliates employed approximately 125,000 people.

Sobeys and its franchisees and affiliates have over 300 collective agreements covering over 51,000 employees.

Bankruptcy

Neither Empire nor any of its subsidiaries have had any bankruptcy, receivership or similar proceedings taken against them nor have they undertaken any voluntary bankruptcy, receivership or similar proceedings within the three most recently completed fiscal years, or expect to undergo any such proceedings in the current fiscal year.

Reorganization

Other than as described under the heading “General Development of the Business”, neither Empire nor any of its subsidiaries have undergone any other material reorganization within the three most recently completed fiscal years.

GENERAL DEVELOPMENT OF THE BUSINESS

The development of the Company's business over the past three fiscal years is discussed in the following sections.

Focus on Food Retailing

The Company continues to center its attention on a food-focused strategy, with an emphasis on productivity and innovation, and investment in retail stores and distribution centres. Over the last three fiscal years, Sobeys has continued to grow and develop as a leading Canadian grocery retailer and food distributor. Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives and business process improvements, and supply chain and system upgrades.

Sobeys has made significant investments during this period to support that growth, through property, equipment and investment property purchases, excluding corporate acquisitions, totalling approximately \$1.1 billion. At the same time, the Company has disposed of its non-food related interests, with the exception of its interest in residential real estate through Genstar, to help fund its food-focused activities.

Acquisitions and Dispositions

Canada Safeway Acquisition

Effective November 3, 2013, Sobeys acquired substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of \$5.8 billion, subject to a working capital adjustment.

The Canada Safeway acquisition included:

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

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

- Empire subscription receipt offering of \$1,844.1 million, net of fees of \$75.8 million, which closed on July 31, 2013;
- A \$991.3 million sale-leaseback with Crombie REIT of acquired real estate assets;
- Term credit facilities of \$2,025.0 million;
- The issuance of \$1,000.0 million in unsecured notes by Sobeys; and
- Available cash on hand.

As a result of the completion of the acquisition of Canada Safeway assets, each outstanding subscription receipt was exchanged for one Non-Voting Class A share of Empire and a cash dividend-equivalent payment of \$0.26, less any applicable withholding taxes.

Immediately upon closing of the Canada Safeway acquisition, Sobeys completed the above mentioned sale to Crombie REIT of 70 properties acquired from Canada Safeway representing approximately 3.0 million square feet of gross leasable area for an aggregate purchase price of approximately \$991.3 million in cash, subject to customary adjustments. As a condition of closing, wholly-owned subsidiaries of Sobeys, as tenants, entered into fully net leases for each of the 70 properties with any third party tenants occupying any portion of any such properties becoming sub-tenants of Sobeys.

Competition Bureau Required Divestitures

As a condition of the regulatory clearance from the Competition Bureau for Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway, the Company was required to sell 23 retail stores. On

February 13, 2014, Sobeys announced that it had entered into binding purchase agreements with Overwaitea Food Group LP and Federated Co-operatives Limited to purchase 22 of the 23 retail stores that were required to be divested as a result of the Canada Safeway acquisition. In addition to the required divestitures, the Company agreed to sell to Overwaitea an additional seven stores in British Columbia. Sobeys also signed a binding purchase agreement with another retailer for the sale of one retail store which was also required to be divested as part of the Canada Safeway acquisition.

During fiscal 2014, the Company divested 19 of the retail stores for cash proceeds of \$337.7 million. The remaining 11 retail stores were divested during the first quarter of fiscal 2015 for cash proceeds of \$111.3 million. All proceeds were used to repay bank borrowings.

Divestiture of Manufacturing Facilities

On July 8, 2014, Sobeys announced that it had entered into an agreement with Agropur Cooperative to sell four Safeway dairy manufacturing facilities. Long-term milk, yogurt and ice cream supply agreements came into effect upon transfer of the facilities to Agropur Cooperative. During fiscal 2015, all of the facilities were sold and aggregate proceeds of \$344.2 million were realized from the sales. All proceeds were used to repay bank borrowings. The long-term supply agreements 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 would be adjusted up or down based on a volume-driven formula. Given the operating results experienced in the first two quarters of fiscal 2016, management believed that purchases in calendar year 2016 were unlikely to meet the minimum volume requirements and, accordingly, recorded a provision of \$39.7 million to reflect the estimated adjustment to the sales price. During the fourth quarter of fiscal 2016, as a result of continuing challenges in the West business unit, management updated its initial estimate of expected purchases for calendar year 2016. The updated estimate resulted in an additional provision of \$31.2 million being recorded, increasing the total provision to \$70.9 million. This provision continues to be monitored and updated for any changes to estimated calendar year 2016 purchase volumes. The actual sales price adjustment could vary significantly from this estimate. Upon finalization of the purchase price adjustment, the minimum volume requirements for the remainder of the long-term supply agreements will be determined. Management does not expect there to be future financial exposure associated with the long-term supply agreements.⁽¹⁾

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

Retail Store Network Rationalization

During the fourth quarter of fiscal 2014, Sobeys completed a detailed review of its retail store network. This review aligned with management's ongoing focus on enhancing the productivity and performance of the network and logically followed the acquisition of Canada Safeway. Based on this detailed review, Sobeys determined that consistently underperforming retail stores, representing approximately 50 stores (1.5 million of total gross square footage) and 3.8 percent of the total retail network gross square footage, were to close. Approximately sixty percent of the affected stores were located in Western Canada. As of May 7, 2016, there have been 45 retail store closures, 42 in fiscal 2015 and three in fiscal 2016, representing approximately 1.4 million square feet, since Sobeys completed the detailed review of its network in fiscal 2014.

Safeway Integration

Following the close of the Canada Safeway acquisition, the Company began the integration of the acquired business with existing operations which has resulted in a number of operational issues that have had an impact

¹ This statement represents forward looking information described under the "Forward-Looking Information" section of this AIF.

on financial results. This integration continues to present significant challenges as the organizational, training and educational gaps related to the information technology system and process integration of the acquired business continue to be identified by the Company. These business integration challenges were coupled with operational challenges experienced during fiscal 2016. Merchandising issues such as the private label conversion along with produce supply chain issues impacted the offerings being made to customers. In addition, increased promotional activity and a difficult economic environment, mainly in the Alberta and Saskatchewan markets, resulted in sales, gross margin and earnings erosion in the West business unit. These have negatively impacted our customer experience.

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

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

During fiscal 2015, all Safeway retail stores and distribution centres were converted to Sobeys systems. In the fourth quarter of fiscal 2015, Sobeys converted the remaining legacy Safeway systems to the Sobeys SAP functionality, thereby completing the technical integration phase of the Canada Safeway acquisition.

Impairment of Goodwill and Long-Lived Assets⁽²⁾

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

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

² The following includes forward-looking information described under the "Forward-Looking Information" section of this AIF.

Other Acquisitions and Dispositions

Real Estate Divestitures

During the last three fiscal years, Sobeys, through its wholly-owned subsidiaries, continued to sell properties to and lease back properties from Crombie REIT. See the section entitled "Investments and Other Operations – Crombie REIT" for additional information.

On February 13, 2015, Sobeys sold to and leased back 22 properties from Econo-Malls Holdings #19 Inc. Total proceeds from the transaction were \$61.6 million. All proceeds were used to repay bank borrowings.

During fiscal 2016, Sobeys sold three properties and equipment to third parties.

Subsequent to May 7, 2016, Sobeys sold to and leased back a property from a third party.

Empire Theatres Divestitures

During the second quarter of fiscal 2014, ETL Canada Holdings Limited and its wholly-owned subsidiaries ("Empire Theatres") completed the sale of 46 theatres with 397 screens, being substantially all of its business, in separate transactions with Cineplex Inc. and Landmark Cinemas. The aggregate gross purchase price paid to Empire Theatres in the two transactions was approximately \$259.2 million in cash. The proceeds of these transactions were used to support the Company's food-focused strategy which included the Canada Safeway acquisition.

Co-op Atlantic Corporate Store Purchase

On May 12, 2015, an agreement for Sobeys to purchase certain assets and select liabilities of Co-op Atlantic's food and fuel business for \$24.5 million plus standard working capital adjustments and holdbacks was approved by Co-op Atlantic's member-owners. The agreement provided 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.

Fuel

During fiscal 2014, as a part of the Canada Safeway acquisition, Sobeys acquired 62 co-located retail gas locations in Western Canada.

During fiscal 2016, Sobeys Québec petroleum sector added 12 Shell sites through seven new site developments and five recruitments in markets where the fuel offer was not there to support cross-merchandising with the IGA food business. At the end of fiscal 2016, Sobeys Québec petroleum sector supplied fuel to 230 Shell sites in Québec. These locations increase the efficiency of our cross-merchandising activities with food and increase the value of the AIR MILES[®] reward program.

During fiscal 2016, Sobeys purchased five fuel locations from Co-Op Atlantic (as previously mentioned) and was successful in signing 19 former Co-Op fuel locations to be supplied fuel by Sobeys – nine under the Shell brand and ten as unbranded wholesale accounts.

Liquor

Sobeys continues to focus on innovative ways to better serve our customers. We are expanding as a liquor retailer operating under three banners in Western Canada with 12 Safeway Liquor stores, four Thrifty Foods Liquor stores and 62 Sobeys Liquor stores. During fiscal 2016, we expanded five stores, built five new stores and acquired 12 liquor stores. These stores offer a wide assortment of wine, spirits and beer. In fiscal 2016, we also began to sell beer in 15 stores in Ontario under the Sobeys *extra*, Sobeys Urban Fresh, FreshCo. and Safeway banners.

Expansion and Renovation of Stores

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right-format, right-sized stores, supported by superior customer service. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build and acquire new stores.

Over the last three fiscal years, Sobeys opened, relocated, replaced, expanded, rebannered or redeveloped 289 stores. In addition, over this three-year period, Sobeys acquired 253 new locations inclusive of the Canada Safeway acquisition in fiscal 2014.

Distribution Centres

Sobeys continues to focus on improving its logistics functions through system upgrades, voice pick technology and other productivity software and tools. Sobeys currently has two fully automated distribution centres: Terrebonne, Québec and Vaughan, Ontario. The technology at these centres enables automated stock picking and load assembly systems for improved product selection accuracy and the ability to customize store deliveries according to the unique layout of each store.

In fiscal 2014, the Company announced its plans to expand the Vaughan facility by adding approximately 270,000 sq. ft. of automated warehouse space to distribute items in the frozen and dairy/deli categories. The expanded facility is expected to be fully operational during fiscal 2017.

During fiscal 2015, Sobeys performed a critical review of its excess distribution centre capacity, which identified restructuring opportunities that are expected to improve net earnings as a result of cost savings within its distribution network. As a result of the review, Sobeys announced the closure of two distribution centres in Western Canada and a third in Ontario.

In fiscal 2016, Sobeys purchased a former Target Canada Co. warehouse in Rocky View, Alberta for \$50.0 million. This facility is under construction to be retro-fitted for automation and when renovations are complete, it will have the capacity to efficiently distribute dry grocery products to stores in Alberta, Saskatchewan and part of Manitoba.

The Company remains focused on driving efficiencies in its distribution network in the West and across the country. The Company announced further site closures in fiscal 2016 – one in British Columbia and two in Alberta and will end a contract with a third party service provider in British Columbia.

Subsequent to May 7, 2016, Sobeys completed a sale and leaseback of a 50 percent interest in each of its three automated distribution centres as part of a larger transaction with Crombie REIT. See the section entitled "Investments and Other Operations – Crombie REIT" for additional information.

Brand Positioning

In fiscal 2014, Sobeys launched the new brand positioning for its full service format stores aimed at encouraging and helping Canadians to Eat Better, Feel Better and Do Better through a variety of better food experiences and as an advocate for better food education.

The new brand positioning was developed from Sobeys' market research and customer insights, which recognized the changing needs of Canadian consumers. Management believes this creates a strategic opportunity within the Canadian grocery marketplace which has been articulated through the tagline *Better Food for All* in Sobeys stores across the country and through *le plaisir de mieux manger* ("The Joy of Eating Better") for IGA stores in the Québec market.

In conjunction with this new brand positioning, Sobeys announced a partnership with chef and food campaigner Jamie Oliver, designed to educate, inspire and empower Canadians to Eat Better, Feel Better and Do Better.

Similarly, IGA has teamed up with three high profile food ambassadors in the Québec market - Josée di Stasio, Christian Bégin, and Stefano Faita -- who help inspire Québécois to eat better. With our food-focused, fresh-driven offering, these partnerships help further our commitment to delivering the best food retail experience.

In order to deliver on the *Better Food for All* positioning, Sobeys full service stores are evolving to accommodate an expanded offering. As part of this evolution, at the end of fiscal 2016, we now have 25 new concept stores, including eight new concept stores in the West, 14 in Ontario and three in Atlantic Canada.

In fiscal 2016, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovation, productivity initiatives and business process, supply chain and system upgrades.

Better Food Fund

In fiscal 2015, as part of its commitment to help Canadians Eat Better, Feel Better and Do Better, Sobeys launched the Better Food Fund (the "Fund"). The Fund supports access to, and the advancement of, better food through donations and partnerships with national and regional charities. The Fund's areas of focus are: food access through the support of food banks and breakfast programs; research on food-related health issues; and food literacy through nutrition education and cooking skills programs in schools and communities. The Fund initially created a three-year national partnership with Free the Children and in fiscal 2016 created a three-year partnership with Special Olympics Canada.

Trends

The food retail industry is affected by three main levers – the macroeconomic trends, the consumer trends as well as the increasing digital trends. With these levers undergoing major changes within these past few years, the food retail industry is constantly being redefined and players in the market must shift to stay relevant with consumers.

Over the last five years, Canada's economy, debt and job security have been among the top concerns of Canadians. As the economy slowly recovers, soaring household costs including rent, health care, child care and education place a toll on consumer expenditure. Extreme volatility in commodity prices and foreign exchange are putting pressure on both consumers and retailers as these factors impact both employment and the price of imported goods. This economy gave rise to two extreme demographics – baby boomers who are low in debt and asset rich, and millennials who face student debt, low real wages and a job market with limited prospects. These economic pressures have pushed the food retail industry into a polarized landscape: we are seeing a rise in discounters at one end, and investment in full service and specialty formats at the other.

Sobeys has been addressing these trends by focusing on delivering better value for our customers by decreasing our everyday retail prices and improving our offer to connect with consumers in more meaningful ways. Improving our affordability perception is a priority for the Company, and this trend will continue through the next fiscal year as we evolve our offering to fit our consumers' lifestyles all at a price that is affordable.

A primary trend driving changes in consumer behavior is the rise of the millennials. Compared to baby boomers, millennials tend to be more likely to own a smartphone, are less loyal to brands and their meal times are less structured and more likely to include one or more snacks; these consumers want the ability to browse and buy what they want, how they want, and when they want. There is also growth within convenience stores driven by urbanization, an aging population, smaller household sizes, rising fuel prices and less focus on leisure time shopping.

Retailers are also noting a shift toward male grocery consumers. Relative to females, this demographic is less likely to use coupons and buy on promotions. As a result, grocery stores are poised to receive a higher margin on the purchased items from males than females.

In general, Canadians have continued to focus on health and wellness. At the government level, efforts to increase the transparency of products and change product formulations are impacting manufacturers.

Sobeys is evolving its offer to meet the changing needs of our customers. We are investing in our multi format network to provide the shopping experience our customers demand; we are investing in our in-store experts to help customers make better food choices; and we are investing in our every day price position to make better food more accessible to all Canadians.

Digital trends and consumer purchasing behavior go hand-in-hand to bring a shift to the food retail industry. Both the buyers and the sellers in this equation are leveraging technology to become better informed about their decisions. Sobeys is investing in the development of digital assets as well as focusing on using these assets to build better connections with Canadians. The investments come to life on our websites, our apps, our online shopping platform in the West and Québec, and in our online marketing activities.

While the Canadian economy slowly recovers, changes to consumer buying behavior, including the shift to digital, are forcing grocery retailers to continuously improve the consumer value equation in order to increase their share of grocery wallet. By taking a data driven approach, Sobeys' strategic initiatives each have a distinct vision and purpose that aligns with the evolving market dynamics in order to help Canadians Eat Better, Feel Better and Do Better.

With respect to real estate development, the trend has been for large food anchor retailers to locate away from enclosed shopping centres to free standing locations or strip malls, to find neighborhood locations in growing markets as well as to seek urban locations. Sobeys continues to address this ongoing trend by: (i) focusing its land banking investment on growing communities; (ii) redeveloping neighbourhood shopping centres where our food stores can be expanded or repositioned as free-standing structures; and (iii) accelerating the development of grocery anchored retail shopping centres or free standing food stores. Sobeys also focuses its efforts on increased property density and mixed use urban development.

Investments and Other Operations

Crombie REIT

The largest component of Empire's investments and other operations segment is its 41.5 percent (40.2 percent fully diluted) equity accounted interest in Crombie REIT. Crombie REIT began in 2006 with the transfer of an initial portfolio of properties from Empire subsidiaries, with Empire maintaining a significant ownership interest.

Empire continues to support Crombie REIT's growth and geographical diversification and, as a result of Sobeys' active property development pipeline, Sobeys offers properties for sale to Crombie REIT with many of those properties leased back to Sobeys at commercial leasing rates.

The following table shows the properties transferred from wholly-owned Empire subsidiaries to Crombie REIT over the last three fiscal years:

Fiscal Year Ended	Number of Properties		Aggregate Gross Leaseable Area for Properties Sold	Purchase Price
	Sold to Crombie	Leased-Back from Crombie		
May 7, 2016	6	6	220,973	\$60.7 million
May 2, 2015	10	8	399,359	\$105.8 million
May 3, 2014 ⁽¹⁾	71	71	3,144,408	\$1,001.5 million

Note:

- (1) Upon the closing of the Canada Safeway acquisition, Sobeys completed the sale to Crombie REIT of 70 properties acquired from Canada Safeway. Further information can be found in the section entitled "Canada Safeway Acquisition" of this AIF.

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land owned by Empire. Crombie REIT will also invest approximately \$58.8 million in renovations or expansions of 10 Sobeys retail locations already in Crombie REIT's portfolio. The transaction closed June 29, 2016. Net cash proceeds to Sobeys from these transactions were approximately \$324.6 million, which was used to repay senior unsecured notes coming due. In addition to the cash, Crombie REIT issued to Sobeys approximately \$93.4 million in value of Crombie LP Class B units with attached special voting units of Crombie REIT at a price of \$14.70 per unit. Sobeys subsequently transferred its Class B LP units to Empire on a tax deferred basis.

Crombie REIT accesses the capital markets from time to time in order to partially finance its acquisitions from the Company and third parties. The Company has a pre-emptive right to purchase additional units issued by Crombie REIT or Crombie Limited Partnership to maintain its pro rata voting interest in Crombie REIT or Crombie Limited Partnership, for so long as the Company continues to hold, directly or indirectly, at least 10 percent of the ownership units in Crombie REIT.

Pursuant to or in lieu of this pre-emptive right, the Company has made additional investments in Crombie REIT over the past three fiscal years as set out in the following table:

Crombie REIT Offering			Empire Participation		
Date	Securities	Aggregate Amount (excluding Empire participation)	Amount	Securities	Price per unit
May 30, 2014	REIT Units	\$60.0 million	\$40.0 million	Class B limited partnership units ⁽¹⁾	\$13.25
November 4, 2013	REIT Units	\$225.0 million	\$150.0 million	Class B limited partnership units	\$12.70

Note:

(1) Class B limited partnership units are convertible on a one-for-one basis into units of Crombie REIT.

During 2014, Crombie REIT instituted a distribution reinvestment plan (“DRIP”) whereby Canadian resident REIT unitholders may elect to automatically have their distributions reinvested in additional REIT units. The Company has enrolled in the DRIP to maintain its economic and voting interest in Crombie REIT. Units acquired under the DRIP will be issued directly from treasury of Crombie REIT at a price equal to 97 percent of the volume-weighted average trading price of the REIT units on the Toronto Stock Exchange (“TSX”) for the five trading days immediately preceding the relevant distribution payment date.

The cumulative effect of changes to Crombie REIT’s capital over the past three years, including offerings and conversions of convertible debentures, resulted in Empire’s equity accounted interest in Crombie REIT going from 42.8 percent (40.8 percent fully diluted) at the end of fiscal 2013 to 41.5 percent (40.2 percent fully diluted) at May 7, 2016.

Genstar

Investments and other operations includes the Company’s equity accounted interests in Genstar. Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States. Over the past three fiscal years, the aggregate amount of the Company’s investments in Genstar total \$20.7 million.

Significant Acquisitions

Empire made no acquisitions during the most recently completed fiscal year that required the filing of a business acquisition report.

Risk Management

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

Competition

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

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.

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

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

Product Safety and Security

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

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect Sobeys' financial performance. Procedures are in place to manage food crises, should they occur. These procedures are intended to identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from sale immediately. Food safety related liability exposures are insured by the Company's insurance program. In

addition, Sobeys has food safety procedures and programs which address safe food handling and preparation standards. However, there can be no assurance that such measures will prevent the occurrence of any such contamination, and insurance may not be sufficient to cover any resulting financial liability or reputational harm.

Human Resources

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

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

There is always a risk associated with the loss of key personnel. The succession planning process overseen by the Human Resources Committee of the Company's Board of Directors includes readiness for planned and unplanned executive departures to ensure orderly leadership transitions.

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

Operations

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

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

Technology

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

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

Information Management

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

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

Supply Chain

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

Product Costs

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

Economic Environment

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

Liquidity Risk

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

Interest Rate Fluctuation

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

Business Continuity

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

Insurance

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

Ethical Business Conduct

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

Environmental

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

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

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

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

Occupational Health and Safety

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

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail stores, as well as for its commercial property and residential development operations, with

direct or indirect Company ownership being an important, but not overriding, consideration. The Company develops certain retail store locations on owned sites; however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and the ability to expand existing stores are therefore in large part contingent upon the successful negotiation of operating leases with these developers and the Company's ability to purchase high potential sites.

Legal, Taxation and Accounting

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

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

Utility and Fuel Prices

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

Credit Rating

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

Foreign Currency

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

Capital Allocation

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

Seasonality

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

Foreign Operations

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

Drug Regulation

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

Pension Plans

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

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

Leverage Risk

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

Integration of the Combined Business

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

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

DIVIDENDS

The declaration and payment of dividends is at the discretion of the Board.

Empire is not aware of any restrictions that could prevent it from paying dividends.

During fiscal 2016, the Company paid dividends of \$109.4 million (\$0.40 per share) to Non-Voting Class A and Class B common shareholders versus \$99.7 million (\$0.36 per share) in fiscal 2015.

Empire has no stated policy with respect to the payment of dividends on either its Non-Voting Class A shares or on its Class B common shares. Empire has paid dividends on its outstanding shares during the periods indicated as set out below:

	Annual Dividend Rate		
	Fiscal 2016	Fiscal 2015	Fiscal 2014
Non-Voting Class A shares	\$0.40	\$0.36	\$0.35
Class B common shares	\$0.40	\$0.36	\$0.35

CAPITAL STRUCTURE

Share Capital

Empire's capital structure as at May 7, 2016 was as follows:

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

The Company's share capital on May 7, 2016 is shown in the table below:

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

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 common 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 AIF to reflect the share split.

During the year ended May 2, 2015, 4,644,210 Class B common shares were converted into 4,644,210 Non-Voting Class A shares. During the year ended May 7, 2016, no Class B common shares were converted into Non-Voting Class A shares.

In fiscal 2015, 262,722 options were exercised resulting in the issuance of 69,549 Non-Voting Class A shares. In fiscal 2016, 135,712 options were exercised resulting in the issuance of 41,442 Non-Voting Class A shares.

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

Normal Course Issuer Bid (“NCIB”)

The Board of Directors and senior management of Empire are of the opinion that from time to time the purchase of Non-Voting Class A shares at prevailing market prices is a worthwhile use of funds and in the best interests of Empire and its shareholders. Empire acquired 5,365,752 of its Non-Voting Class A shares at a weighted average price of \$27.59 pursuant to its NCIB for the period ending March 16, 2016.

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

The average daily trading volume (the “ADTV”) of the Non-Voting Class A shares was 300,851 on the TSX over the six completed calendar months up to the date of the notice. Accordingly, under the policies of the TSX, the Company is entitled to purchase, during any one trading day, up to 75,212 Non-Voting Class A shares (being 25 percent of the ADTV of the Non-Voting Class A shares). The Company is entitled to purchase a larger amount of Non-Voting Class A shares per calendar week, subject to the maximum number that may be acquired under the NCIB, if the transaction meets the block purchase exception under the TSX rules.

Shareholders may obtain, free of charge, a copy of the notice of intent described above by contacting the Company's Investor Relations department.

Empire has not repurchased any Non-Voting Class A shares since the date of the notice.

Non-Voting Class A Shares and Class B Common Shares

The rights of the holders of Non-Voting Class A shares and those of the holders of Class B common shares are subject to the rights of the holders of the preferred shares of the Company which enjoy a preferential right to dividends and return of capital on liquidation. The following is a summary of the privileges and rights attaching to the Non-Voting Class A shares and Class B common shares of the Company:

1. The Non-Voting Class A shares and the Class B common shares rank equally, *pari passu*, share for share, with each other and entitle the respective holders thereof to the same rights and benefits except as otherwise provided in the conditions attaching thereto.
2. The directors may at any time and from time-to-time declare a dividend or confer any other benefit whatsoever upon the holders of the Non-Voting Class A shares without being obliged to declare an equal or any dividend or confer an equal or any other benefit upon the holders of the Class B common shares provided that no dividend may be declared in respect of or any other benefit conferred upon the holders of the Class B common shares unless concurrently therewith the same dividend is declared in respect of and the same benefit is conferred upon the holders of the Non-Voting Class A shares.
3. The holders of the Non-Voting Class A shares shall receive notice of and may attend any meeting of the Class B common shareholders of the Company but are not entitled to vote at the meeting.
4. The Class B common shares carry the right to one vote per share at all meetings of the Class B common shareholders of the Company.
5. Under certain circumstances, the Class B common shares may at any time be converted into Non-Voting Class A shares on a one for one basis. The circumstances, among other things, require the approval of the Board of Directors and require that Class B common shares which are to be converted be offered first to all the other holders of Class B common shares.
6. No subdivision or consolidation of the Class B common shares shall be made unless the same subdivision or consolidation of the Non-Voting Class A shares is made concurrently. No subdivision or consolidation of the Non-Voting Class A shares shall be made unless the same subdivision or consolidation of the Class B common shares is made concurrently.

If a formal take-over bid (other than a "Family Share Transaction" described below) is made for Class B common shares, then the conditions attaching to the Class B common shares and Non-Voting Class A shares generally provide that Canadian holders of Class B common shares shall also be entitled to receive an offer to purchase their Class B common shares and Canadian holders of Non-Voting Class A shares shall also be entitled to receive an offer to purchase their Non-Voting Class A shares on terms and conditions at least as favourable, including the price offered. If an offeror acquires Class B common shares pursuant to a formal take-over bid and does not make the same offer for Non-Voting Class A shares within 60 days, then unless otherwise determined by the Board of Directors, the Class B common shares acquired pursuant to the offer as well as some other Class B common shares held by the offeror and any others acting jointly or in concert with the offeror, shall convert to Non-Voting Class A shares.

A "Family Share Transaction" means any transfer of any kind of an interest in Class B common shares to one or more of the descendants of J.W. Sobey, now deceased and formerly a businessman of Stellarton, Nova Scotia. For this purpose, descendants include spouses, companies controlled by any such descendants or their affiliates and trusts for bona fide estate planning purposes primarily for the benefit of any such descendants.

2002 Preferred Shares

The 2002 preferred shares are issuable in series, with each series consisting of such number of shares and having such provisions as may be determined by the directors of the Company prior to issue. The 2002 Preferred shares rank in preference over Non-Voting Class A shares and Class B common shares in respect to the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the

Company. The 2002 Preferred shares of each series rank equally with the 2002 preferred shares of every other series in respect to the payment of dividends and in the distribution of assets. The Company may not create or issue any shares ranking in priority or on a parity to the 2002 preferred shares as to the payment of dividends or the distribution of assets without the approval of two thirds of the preferred shareholders.

Long-Term Debt

The Company has the following long-term debt outstanding:

(\$ in millions)	As at May 7, 2016	As at May 2, 2015
Long-term debt due within one year	\$ 341.4	\$ 53.9
Long-term debt	2,011.5	2,230.2
	\$ 2,352.9	\$ 2,284.1

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

Pursuant to an agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of \$1,825.0 million; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of \$1,327.9 million; and a revolving term credit facility (the "RT Facility") in the amount of \$450.0 million. The credit facilities are subject to certain financial covenants. On November 4, 2013, the RT Facility replaced Sobeys' previous unsecured revolving term credit facility of \$450.0 million, the Acquisition Facility was fully drawn for \$1,825.0 million and the Bridge Facility was drawn for \$200.0 million in order to partially finance the Canada Safeway acquisition. The facilities mature November 4, 2017. The Bridge Facility was fully repaid and cancelled on April 10, 2014.

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 million to \$650.0 million and Sobeys' previous non-revolving, amortizing term credit facility was fully repaid and cancelled. As of May 7, 2016, the outstanding amount of the RT Facility was \$200.0 million, and Sobeys had issued \$54.5 million in letters of credit against the RT Facility (2015 - \$57.3 million). 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. Interest payable fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or the London Interbank Offered Rate ("LIBOR"), and in the case of the BA rate loans or LIBOR loans, the margin applicable to the financial covenants.

At May 6, 2016, \$290.0 million of the Company's and Sobeys' combined credit facilities were utilized (May 2, 2015 - \$221.8 million).

On July 14, 2014, Sobeys completed a private placement of \$300.0 million aggregate principal amount of floating rate senior unsecured notes, due July 14, 2016. The senior unsecured notes bear an interest rate equal to the three-month bankers' acceptance rate plus 63 basis points, to be set quarterly. The net proceeds were used to repay outstanding debt on the Acquisition Facility. Deferred financing fees in the amount of \$0.9 million were incurred on the draw down of the senior unsecured notes and have been offset against long term debt amounts for presentation purposes. Subsequent to May 7, 2016, these notes were fully matured and repaid on July 14, 2016.

Sobeys has the following medium term notes (“MTNs”), and Series 2013 Notes and senior unsecured floating rate notes (together referred as the “Notes”) outstanding:

(\$ in millions)	As at May 7, 2016	As at May 2, 2015
MTN Series C, interest rate 7.16%, due February 26, 2018	\$ 100.0	\$ 100.0
MTN Series D, interest rate 6.06%, due October 29, 2035	175.0	175.0
MTN Series E, interest rate 5.79%, due October 6, 2036	125.0	125.0
MTN Series F, interest rate 6.64%, due June 7, 2040	150.0	150.0
Series 2013-1 Notes, interest rate 3.52%, due August 8, 2018	500.0	500.0
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	500.0	500.0
Senior unsecured notes, floating interest rate tied to bankers' acceptance rate, due July 14, 2016	300.0	300.0
	\$ 1,850.0	\$ 1,850.0

Sobeys has Sinking Fund Debentures, in aggregate, of \$5.6 million outstanding (fiscal 2015 - \$6.2 million) with a weighted average interest rate of 11.63 percent, due 2016.

Sobeys' MTNs, Notes and Sinking Fund Debentures are not listed or quoted in a market place.

Credit Ratings (Canadian Standards)

Sobeys' credit ratings for its securities at fiscal year-end May 7, 2016, are as follows:

	Dominion Bond Rating Service (“DBRS”)	Standard & Poor’s (“S&P”)
MTNs	BBB low (stable trend)	BBB- (negative outlook)
Sinking Fund Debentures	BBB low (stable trend)	BBB- (negative outlook)
Notes	BBB low (stable trend)	BBB- (negative outlook)

During fiscal 2016, S&P affirmed Sobeys' credit rating of BBB- with a negative outlook and DBRS reaffirmed Sobeys' credit rating of BBB (low) with a stable trend.

The credit ratings accorded to the debt by the rating agencies are not a recommendation to purchase, hold or sell the debt, in as much as such ratings do not comment as to market price or suitability for a particular investor. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The Company provides the rating agencies with confidential, in-depth information in support of the rating process.

DBRS' credit ratings for long-term debt instruments range from AAA to D. The DBRS BBB rating exhibits adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its related securities. Ratings designations may be modified by the addition of a high or low to indicate relative standing within the BBB category. Each DBRS rating category is appended with one of three rating trends: “Positive”, “Stable” or “Negative”. The rating trend helps to give an investor an understanding of DBRS' opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

S&P's credit ratings for long-term debt instruments range from AAA to D. S&P's BBB- rating exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of a company to meet its financial commitment on the obligation. Ratings designations may be modified by the addition of a plus or minus to indicate relative standing within the BBB category. A plus or minus designation indicates the debt's relative standing within the BBB category. S&P's rating outlook assesses the potential direction that a rating may be headed over the immediate to longer-term, with outlooks falling into one of five categories: positive, negative, stable, developing or not meaningful. A stable outlook indicates steady credit metrics are expected; however, a rating may be raised or lowered in the intermediate to long term.

The credit ratings on the MTNs, Notes and Sinking Fund Debentures may not reflect the potential impact of all risks related to structure and other factors on the value of the MTNs, Notes and Sinking Fund Debentures. In addition, real or anticipated changes in the Company's credit ratings will generally affect the market value of the debt. The foregoing ratings may be revised or withdrawn at any time by the rating agency if, in its judgment, circumstances warrant.

The Company has made, or will make, payments in the ordinary course to the rating agencies in connection with the assignment of ratings on the Company or its subsidiaries and their securities. In addition, the Company has made customary payments in respect of certain subscription services provided to the Company by the rating agencies during the last two years.

MARKET FOR SECURITIES

The Non-Voting Class A shares (symbol EMP.A) are listed on the Toronto Stock Exchange which is the primary marketplace on which the greatest volume of trading or quotation generally occurs. The monthly high and low share price and the TSX monthly average volume for the Non-Voting Class A shares for the fiscal year ended May 7, 2016 are as follows:

Empire Company Limited Non-Voting Class A shares

Month	High (\$ per share)	Low (\$ per share)	Average Daily Volume by Month (in shares)
May 4-31/15	\$30.57	\$30.06	117,417
June 1-30/15	\$31.02	\$30.33	228,295
July 1-31/15	\$31.03	\$30.61	208,613
August 1-31/15	\$31.15	\$30.48	224,669
September 1-30/15	\$31.12	\$30.41	1,252,133
October 1-31/15	\$28.47	\$27.84	1,431,314
November 1-30/15	\$27.82	\$27.33	532,123
December 1-31/15	\$26.92	\$26.36	1,116,329
January 1-31/16	\$26.54	\$25.94	942,779
February 1-28/16	\$26.49	\$26.02	552,154
March 1-31/16	\$27.03	\$26.72	4,237,120
April 1-30/16	\$22.55	\$22.17	1,039,898
May 1-May 6/16	\$21.30	\$20.99	519,352

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table provides summary financial information for Empire over the last three fiscal years.

(\$ in millions, except per share amounts)	Fiscal Year Ended		
	May 7, 2016 (53 weeks)	May 2, 2015 (52 weeks) ⁽¹⁾	May 3, 2014 (52 weeks) ⁽¹⁾
Sales	\$ 24,618.8	\$ 23,928.8	\$ 20,957.8
Operating (loss) income	(2,418.5)	742.4	326.7
Net (loss) earnings from continuing operations ⁽²⁾	(2,131.0)	419.0	151.0
Net (loss) earnings ⁽²⁾	(2,131.0)	419.0	235.4
Adjusted net earnings ⁽²⁾⁽⁴⁾	410.2	511.0	390.6
Long-term debt, including current portion	\$ 2,352.9	\$ 2,284.1	\$ 3,493.8
Shareholders' equity ⁽²⁾	3,621.0	5,983.8	5,700.5
Total assets	9,087.5	11,460.7	12,236.6
Per share information, fully diluted			
Net (loss) earnings from continuing operations ⁽²⁾⁽³⁾	\$ (7.78)	\$ 1.51	\$ 0.63
Net (loss) earnings ⁽²⁾⁽³⁾	\$ (7.78)	\$ 1.51	\$ 0.98
Adjusted net (loss) earnings ⁽²⁾⁽⁴⁾	\$ 1.50	\$ 1.84	\$ 1.62

Notes:

- (1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of (loss) earnings
- (2) Net of non-controlling interest.
- (3) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.
- (4) These terms do not have a standardized meaning under generally accepted accounting principles. See "Non-GAAP Financial Measures & Financial Metrics" section of the Company's MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Reference is made to the Company's Management's Discussion and Analysis for the fiscal year ended May 7, 2016, which is incorporated into this AIF by reference, a copy of which has been filed on SEDAR at www.sedar.com.

DIRECTORS AND OFFICERS

The name, province of residence, and principal occupation of each of the directors and officers of Empire as at May 7, 2016 were as follows:

Directors

Name and Province of Residence	Office	Principal Occupation	Director Since
BONNIE BROOKS ⁽³⁾⁽⁵⁾⁽⁷⁾⁽⁹⁾ Ontario, Canada	Director	Vice Chairman, Hudson's Bay Company	2012
CYNTHIA DEVINE ⁽²⁾⁽⁵⁾⁽⁷⁾ Ontario, Canada	Director	Executive Vice-President and CFO, RioCan Real Estate Investment Trust	2013
ROBERT P. DEXTER Nova Scotia, Canada	Chair	Chair and CEO, Maritime Travel Inc.	1987
JAMES M. DICKSON Nova Scotia, Canada	Director	Partner, Stewart McKelvey	2015
SUE LEE ⁽³⁾ Alberta, Canada	Director	Corporate Director	2014
WILLIAM LINTON ⁽¹⁾ Ontario, Canada	Director	Corporate Director	2015
KEVIN LYNCH ⁽³⁾⁽⁶⁾⁽⁸⁾ Ontario, Canada	Director	Vice Chairman, BMO Financial Group	2013
MARC POULIN ⁽¹⁰⁾ Québec, Canada	Director, President and CEO	President and CEO, Empire Company Limited President and CEO, Sobeys Inc.	2012
STEPHEN J. SAVIDANT ⁽⁴⁾⁽⁵⁾⁽⁷⁾ Alberta, Canada	Director	Chairman, Enerflex Ltd.	2004
FRANK C. SOBEY ⁽⁵⁾ Nova Scotia, Canada	Director	Chair, Crombie REIT	2007
JOHN R. SOBEY ⁽¹⁾ Nova Scotia, Canada	Director	Corporate Director	1979
KARL R. SOBEY ⁽³⁾ Nova Scotia, Canada	Director	Corporate Director	2001
PAUL D. SOBEY ⁽⁵⁾ Nova Scotia, Canada	Director	Corporate Director	1993
ROB G. C. SOBEY ⁽³⁾⁽⁵⁾ Nova Scotia, Canada	Director	Corporate Director	1998
MARTINE TURCOTTE ⁽¹⁾⁽⁵⁾⁽⁷⁾ Québec, Canada	Director	Vice Chair, Québec, BCE Inc. and Bell Canada	2012

- (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) Bonnie Brooks resigned from the Board effective July 4, 2016.
- (10) Marc Poulin ceased to be President and CEO effective July 7, 2016 and resigned from the Board effective that date.

The term of office for each person elected or appointed as a director is until the next annual meeting of shareholders of Empire or until his or her successor is elected.

Executive Officers Who are Not Directors

Name and Province of Residence	Occupation
BETH NEWLANDS CAMPBELL ⁽¹⁾ Ontario, Canada	President, Sobeys Atlantic/Ontario (Sobeys)
SIMON GAGNÉ Ontario, Canada	Chief Human Resources Officer (Sobeys)
YVES LAVERDIÈRE ⁽²⁾ Québec, Canada	President, Sobeys Québec (Sobeys)
CLINTON KEAY ⁽³⁾ Nova Scotia, Canada	Executive Vice President, Finance (Empire and Sobeys)
KARIN McCASKILL Ontario, Canada	Senior Vice President, General Counsel and Secretary (Empire and Sobeys)
JASON POTTER Alberta, Canada	President, Sobeys West (Sobeys)
FRANÇOIS VIMARD ⁽⁴⁾ Ontario, Canada	Chief Financial and Administrative Officer (Empire and Sobeys)

Note:

- (1) Beth Newlands Campbell became President, Sobeys Atlantic/Ontario in April 2016.
- (2) Yves Laverdière became President, Sobeys Québec in February 2016.
- (3) Clinton Keay was appointed Interim Chief Financial Officer effective July 7, 2016.
- (4) François Vimard was appointed a Director and Interim President and Chief Executive Officer of Empire and Sobeys effective July 7, 2016.

During the past five years, each of the above-mentioned directors and officers has been engaged in the principal occupation or held the position with the company or firm indicated opposite his or her name other than:

- Bonnie Brooks, who prior to February 2014 was President of Hudson's Bay Company;

- Beth Newlands Campbell, who prior to April 2016, was a Strategy Consultant. Prior to November 2014, she was President, Food Lion (Delhaize America) and prior to December 2012, she was President, Hannaford Supermarkets (Delhaize America);
- Cynthia Devine, who prior to December 2014 was CFO of Tim Hortons Inc.;
- Clinton Keay, who prior to February 2014 was Senior Vice President and Chief Information Officer, Sobeys. Prior to October 2011 he was Senior Vice President, Information and Technology and Business Process Optimization;
- Yves Laverdière, who prior to February 2016 was retired. Prior to October 2015 he was Senior Vice President, Procurement and Merchandising, Sobeys Québec.
- Sue Lee, who prior to March 2012 was Senior Vice President, Human Resources and Communications of Suncor Energy Inc.;
- William Linton, who prior to July 2012 was Chief Financial Officer, Rogers Communications Inc.;
- Karin McCaskill, who prior to September 2014 was Corporate Secretary, Empire;
- Jason Potter, who prior to April, 2015 was President, Sobeys Multi-Format Operations. Prior to October 2011 he was President Operations, Sobeys Atlantic;
- Stephen J. Savidant, who prior to June 2011 was Chairman of ProspEx Resources Ltd. Effective June 1, 2011, Mr. Savidant became a director and Chair of the board of Enerflex Ltd;
- Marc Poulin, who prior to December 13, 2013 was President and CEO, Sobeys. Prior to June 29, 2012 he was President, Sobeys IGA Operations. Prior to October 2011 he was President Operations, Sobeys Québec;
- Frank Sobey, who prior to June 1, 2014 was Vice President Real Estate, Empire;
- Paul Sobey, who prior to December 12, 2013 was President and CEO, Empire;
- Rob C.G. Sobey, who prior to January 2014 was President and CEO, Lawtons' Drug Stores Limited;
- François Vimard, who prior to February 2014 was Executive Vice President, Sobeys. Prior to October 2011 he was Chief Financial Officer, Sobeys.

As of May 7, 2016, the number of Class B common shares of Empire beneficially owned, directly or indirectly, or over which control or direction is exercised by the directors and executive officers of Empire as a group is 22,430,435 or approximately 22.9 percent of those issued and outstanding. No executive officer, who is not a director, owns Class B common shares.

Other Proceedings

No director or executive officer is, as at the date of this AIF, or was within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including a personal holding company) that:

- a) was subject to an order (as defined in Form 51-102 F2 of National Instrument 51-102 – *Continuous Disclosure Obligations*) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

- b) was subject to an order (as defined in Form 51-102 F2 of National Instrument 51-102 – *Continuous Disclosure Obligations*) that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director, executive officer or shareholder holding a sufficient number of securities of Empire to affect materially the control of Empire, or a personal holding company thereof,

- a) is, as at the date of this AIF, or was within 10 years before the date of this AIF, a director or executive officer of any company (including a personal holding company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets,;
- b) has, as at the date of this AIF, or within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the trustee, executive officer or shareholder; or
- c) has been subject to:
 - (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
 - (ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Conflict of Interest

Against the backdrop of the Code of Business Conduct and Ethics, the Company's Board deals with existing or potential conflicts of interest on a case-by-case basis to ensure the avoidance of any possibility of the perception or the reality of conflict of interest. During fiscal 2016, Two directors were associated with RioCan Real Estate Investment Trust, a company with which the Company does business in the real estate context and which competes with Crombie REIT. These directors were required to recuse themselves from any presentations, discussions or decision-making related to the Company's real estate strategy or the business of Crombie REIT to the extent those discussions or decisions related in any way to RioCan.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar is CST Trust Company with offices located in Halifax, Nova Scotia and Toronto, Ontario, and can be contacted by phone at 1-800-387-0825 or by e-mail at inquiries@canstockta.com.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate

The Audit Committee Mandate as approved by the Company's Board is included in Appendix B.

The Audit Committee Mandate contains specific policies and procedures for the engagement of non-audit services.

Audit Committee Composition

The members of the Audit Committee at May 7, 2016, and their relevant education and experience are:

1. Cynthia Devine (Chair)
 - Honours Business Administration degree, the Richard Ivey School of Business at the University of Western Ontario.
 - Fellow of the Institute of Chartered Professional Accountants of Ontario.
 - Executive Vice President and Chief Financial Officer of RioCan Real Estate Investment Trust.
 - Director of Sobeys and member of the Ivey Advisory Board for the Richard Ivey School of Business.
 - CFO of Tim Hortons Inc. from 2003 until 2014.
 - Senior Vice-President of Finance at Maple Leaf Foods from 2001 to 2003. From 1992 to 2001 she worked for Pepsi-Cola Canada in several finance roles, including CFO from 1999 to 2001.
 - Director of ING Direct Canada from 2009 until its sale to Scotiabank in 2012.
2. William Linton
 - Mr. Linton holds a Bachelor of Commerce degree from St. Mary's University.
 - Fellow of the Institute of Chartered Professional Accountants of Ontario.
 - Corporate director with more than 30 years of business experience.
 - Director of CSL Group Inc., Sobeys and TMX Group.
 - Formerly Executive Vice President, Finance and Chief Financial Officer at Rogers Communications Inc., from which he retired in 2012.
 - Previously held other senior executive positions including President and Chief Executive Officer of Call-Net Enterprises Inc., Chair and Chief Executive Officer of Prior Data Sciences Inc. and Executive Vice President and Chief Financial Officer of SHL Systemhouse Inc.
3. John R. Sobey
 - Past President and Chief Operating Officer of Sobeys.
 - Corporate director with 34 years of retail grocery experience at Sobeys. Mr. Sobey began his career in the retail stores and progressed in various management roles in merchandising, category management and retail store operations.
 - Director of Sobeys.
 - Formerly a director of Atlantic Shopping Centers, Hannaford Bros. and Medavie Inc.
4. Martine Turcotte
 - Masters of Business Administration from the London Business School and Bachelors of Civil Law degree and Common Law degree from McGill University.
 - Vice Chair, Québec of BCE Inc. and Bell Canada.
 - Director of CIBC and Sobeys.
 - Member of the Board of Governors of McGill University, Chair of the Board of Théâtre Espace Go Inc. and Chair of the Board, Chamber of Commerce of Metropolitan Montréal.

- Formerly Executive Vice-President and Chief Legal & Regulatory Officer of BCE and Bell Canada. She first joined BCE in August 1988 as legal counsel and has held numerous positions in the BCE group with Bell Canada International Inc., BCE Media and Bell Canada.

All members of the Audit Committee are considered to be financially literate and independent.

Pre-Approval Policies and Procedures

Reference is made to Appendix B – Empire Audit Committee Mandate, Section “Responsibilities”, for a description of the specific policies and procedures for the engagement of non-audit services.

External Auditor Service Fees (by Category)

The table below shows the fees charged by PricewaterhouseCoopers LLP for fiscal 2016 and former auditor Grant Thornton LLP for fiscal 2015, to the Company and its subsidiaries, respectively:

AUDITOR'S FEES FOR EMPIRE COMPANY LIMITED AND ITS SUBSIDIARIES		
	Fiscal Year Ended	
	May 7, 2016	May 2, 2015
Audit Fees	\$ 2,260,000	\$ 2,713,845
Audit Related Fees	146,610	342,529
Tax Fees	27,500	94,466
Other Fees	54,277	67,783
Total Fees	\$ 2,488,387	\$ 3,218,623

For fiscal 2016, audit fees include fees for the audit of the annual consolidated financial statements, reviews of quarterly interim condensed financial statements and audits of employee benefit plan financial statements. Audit related fees are for services including special purpose audits and French translation. Tax fees include various consultations on specific items and assistance with US tax compliance. Other fees include Canadian Public Accountability Board fees.

The Audit Committee monitors and reviews the independence of the auditors on an ongoing basis. A policy that requires the pre-approval of engagements for services of the external auditors has been implemented and, during the pre-approval process, it is considered whether the nature and extent of these services is compatible with maintaining the independence of the external auditors. It has been concluded that the independence of PricewaterhouseCoopersLLP has not been compromised by the services provided.

MATERIAL CONTRACTS

The Company has not entered into any contract, other than in the ordinary course of business, that is material to the Company and that was either entered into since January 1, 2002, and is still in effect or was entered into within the most recently completed fiscal year.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is not, and was not during fiscal 2016, a party or subject to any legal proceedings or group of similar proceedings, nor are any such proceedings known to the Company to be contemplated, where the amount involved, exclusive of interest and costs, exceeds 10 percent of the current assets of the Company.

There were no penalties or sanctions imposed against the Company by, and no settlement agreements entered into by the Company with, a court relating to securities legislation or a securities regulatory authority during fiscal 2016.

INTEREST OF EXPERTS

The Company's auditor are PricewaterhouseCoopers LLP, which has prepared the Independent Auditor's Report to Shareholders in respect of its audited annual consolidated financial statements. PricewaterhouseCoopers LLP have confirmed that they are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant professional body in Nova Scotia.

ADDITIONAL INFORMATION

Additional information with respect to directors' and officers' remuneration and indebtedness, principal holders of Empire's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in Empire's Management Information Circular. Additional financial information is provided in the Company's audited financial statements for its last fiscal year ended May 7, 2016 and the related annual Management's Discussion and Analysis. A copy of such documents may be obtained by request from the investor relations department of Empire, via the Empire website at: www.empireco.ca, or on SEDAR at www.sedar.com.

APPENDIX A – SOBEYS' GEOGRAPHIC AND BANNER PROFILE

All information is as of May 7, 2016

FULL, FRESH & COMMUNITY SERVICE SUPERMARKETS

<i>Geographic Area</i>	<i>Sobeys extra</i>	<i>Sobeys</i>	<i>Safeway</i>	<i>IGA</i>	<i>IGA extra</i>	<i>Thrifty Foods</i>	<i>Foodland</i>	<i>Bonichoix</i>	<i>Les Marchés Tradition</i>	<i>Pete's</i>
Newfoundland and Labrador	-	15	-	-	-	-	26	-	-	-
Prince Edward Island	-	5	-	-	-	-	8	-	-	-
Nova Scotia	1	41	-	-	-	-	32	-	-	2
New Brunswick	-	22	-	-	-	-	11	-	-	-
Québec	-	-	-	157	128	-	-	89	48	-
Ontario	4	86	6	-	-	-	147	-	-	-
Manitoba	1	17	22	7	-	-	-	-	-	-
Saskatchewan	1	9	13	2	-	-	-	-	-	-
Alberta	-	54	77	18	-	-	-	-	-	-
British Columbia	-	1	65	3	-	26	-	-	-	-
TOTAL	7	250	183	187	128	26	224	89	48	2

DISCOUNT, DRUG, CONVENIENCE AND LIQUOR STORES

<i>Geographic Area</i>	<i>FreshCo</i>	<i>Price Chopper</i>	<i>Lawtons</i>	<i>Rachelle-Béry</i>	<i>Needs</i>	<i>Bonisoir</i>	<i>Voisin</i>
Newfoundland and Labrador	-	-	19	-	32	-	-
Prince Edward Island	-	-	5	-	12	-	-
Nova Scotia	-	-	43	-	48	-	-
New Brunswick	-	-	11	-	7	-	-
Québec	-	-	-	22	-	4	4
Ontario	88	3	-	-	-	-	-
Manitoba	-	-	-	-	-	-	-
Saskatchewan	-	-	-	-	-	-	-
Alberta	-	-	-	-	-	-	-
British Columbia	-	-	-	-	-	-	-
TOTAL	88	3	78	22	99	4	4

APPENDIX A – continued

DISCOUNT, DRUG, CONVENIENCE AND LIQUOR STORES – continued

<i>Geographic Area</i>	<i>Cash & Carry</i>	<i>Retail Gas Sites⁽¹⁾</i>	<i>IGA Express</i>	<i>IGA Mini</i>	<i>Retail Liquor Sites</i>
Newfoundland and Labrador	1	9	-	-	-
Prince Edward Island	-	7	-	-	-
Nova Scotia	3	42	-	-	-
New Brunswick	1	60	-	-	-
Québec	-	232	8	9	-
Ontario	-	-	-	-	-
Manitoba	1	-	-	-	-
Saskatchewan	-	-	-	-	2
Alberta	-	-	-	-	71
British Columbia	-	-	-	-	7
TOTAL	6	350	8	9	80

Note:

(1) The total of this column does not include 57 Safeway co-located fuel sites or 21 co-branded convenience fuel locations.

DISTRIBUTION CENTRES

<i>Geographic Area</i>	<i>Distribution Centres</i>
Newfoundland and Labrador	3
Prince Edward Island	-
Nova Scotia	4
New Brunswick	1
Québec	6
Ontario	3
Manitoba	3
Saskatchewan	-
Alberta	8
British Columbia	6
TOTAL	34

CORPORATE AND FRANCHISED STORES – BY GEOGRAPHIC AREA

<i>Geographic Area</i>	<i>Corporate Stores</i>		<i>Franchised Stores</i>	
	<i>Number</i>	<i>Square Footage</i>	<i>Number</i>	<i>Square Footage</i>
Atlantic	328	4,781,434	135	730,096
Québec	183	1,053,741	518	10,576,950
Ontario	94	3,361,927	240	5,656,898
West	205	6,203,840	90	2,683,887
British Columbia	98	3,493,586	4	73,868
TOTAL	908	18,894,528	987	19,721,699

APPENDIX A – continued

CORPORATE AND FRANCHISED STORES – BY BANNER

	<i>Sobeys extra</i>	<i>Sobeys</i>	<i>IGA</i>	<i>IGA extra</i>	<i>Safeway</i>	<i>Thrifty Foods</i>	<i>Foodland</i>	<i>Bonichoix</i>	<i>Le Marchés Tradition</i>	<i>Pete's</i>
Corporate	7	161	4	13	183	26	19	-	1	2
Franchise	-	89	183	115	-	-	205	89	47	-
TOTAL	7	250	187	128	183	26	224	89	48	2

	<i>FreshCo</i>	<i>Price Chopper</i>	<i>Lawtons</i>	<i>Rachelle-Béry</i>	<i>Needs</i>	<i>Bonisoir</i>	<i>Voisin</i>
Corporate	12	3	74	22	99	4	2
Franchise	76	-	4	-	-	-	2
TOTAL	88	3	78	22	99	4	4

	<i>Cash & Carry</i>	<i>Retail Gas Sites⁽¹⁾</i>	<i>IGA Express</i>	<i>IGA Mini</i>	<i>Retail Liquor Sites</i>
Corporate	6	189	1	1	79
Franchise	-	161	7	8	1
TOTAL	6	350	8	9	80

Note:

(1) The total of this column does not include 57 Safeway co-located fuel sites or 21 co-branded convenience fuel locations.

APPENDIX B

EMPIRE COMPANY LIMITED AUDIT COMMITTEE MANDATE

The Audit Committee (the "Committee") is responsible to the Board of Directors (the "Board") for the policies and practices relating to integrity of financial and regulatory reporting as well as internal controls to achieve the objectives of safeguarding of corporate assets, reliability of information and compliance with policies and laws. The Committee is also responsible for identifying principal risks of the business and ensuring appropriate risk management techniques are in place.

The Committee charges management with developing and implementing procedures to:

- Ensure internal controls are appropriately designed, implemented and monitored including reviewing and discussing any significant deficiencies in the design or operation of internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting
- Ensure financial reporting and disclosure of required information is complete, accurate and timely as required by applicable legislation and regulation.

COMPOSITION

The Committee shall be composed of three or more independent Directors, appointed by the Board on the recommendation of the Corporate Governance Committee, in accordance with the independence standards established by the Board of Directors, and all applicable corporate and securities law.

All members of the Committee shall be financially literate as defined by applicable legislation. Financially literate shall mean the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

A member of the Board of Directors who is not financially literate may be appointed to the Committee provided that the member becomes financially literate within three months following his or her appointment, subject to the Company's Board of Directors determining that this appointment will not materially adversely affect the ability of the Committee to act independently and to satisfy the other requirements of this mandate.

If a Committee member ceases to be independent for reasons outside the member's reasonable control, the member shall tender their resignation to the Chair of the Corporate Governance Committee, within three months of the occurrence of the event which caused the member to not be independent.

The members of the Committee are appointed or reappointed annually by the Board, with such appointments to take effect immediately following the Annual General Meeting of Shareholders of the Company. Each member of the Committee shall continue to be a member thereof until their successor is appointed, unless they resign or are removed by the Board, or cease to be a Director of the Company. The Board, upon recommendation of the Corporate Governance Committee, may fill vacancies of members of the Committee for the remainder of the current term of appointment.

The Board shall appoint a Chair from among the members of the Committee to preside at its meetings. The Chair must be independent. If the Chair of the Committee loses their independent status, that person shall cease to be Chair immediately and be replaced as Chair by an existing member of the Committee with the Nominating Committee being asked to replace this member within three months. In the absence of the Chair, one of the other members of the Committee present shall be chosen by the Committee to preside at the meeting.

AUTHORITY

The Committee has the authority to:

- Conduct or authorize an investigation into any matters within its scope of its mandate or responsibility;
- At the Company's expense, as determined by the Committee, engage independent legal, accounting or financial advisors and such other advisors as it deems necessary to advise the Committee or assist in carrying out its duties or to assist in the conduct of an investigation;
- Communicate and meet without Management involvement, the internal auditors, external auditors or outside counsel as necessary; and
- Call a meeting of the Board to consider any matter of concern to the Committee. The Committee shall have direct access to all books, records, facilities and personnel of the Company including to the external and/or internal auditor as it determines this to be advisable. All employees are to cooperate as requested by Committee members.

MEETINGS

The Audit Committee shall meet quarterly or more frequently as circumstances dictate.

Meetings of the Committee may be called by:

- The Chair;
- Any member of the Audit Committee;
- Management; or
- The external auditors.

The time and place of meetings of the Committee and the procedure at such meetings shall be determined from time to time by the members thereof provided that:

1. a quorum shall be a majority of the members, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and hear each other;
2. notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting, provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of that meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

The external auditors shall be invited to attend and be heard at every Audit Committee meeting, and have the opportunity to discuss matters with the Committee without the presence of Management at each meeting. The Committee will meet in camera with the external auditors at each meeting.

There shall be an in-camera session at each quarterly scheduled Committee meeting without management, with in-camera sessions at other Committee meetings as required by any member of the Committee. The Committee

shall appoint a Secretary who need not be a director. The minutes of the Committee shall be recorded and maintained by the Secretary.

All Committee members are expected to attend each meeting. The Chair of the Committee shall report the business of the meeting at the next regularly scheduled Board of Directors meeting.

RESPONSIBILITIES

Administration:

1. The Committee annually reviews its mandate and recommends any changes to the Corporate Governance Committee.
2. The Committee annually completes a self assessment survey and reviews the Committee's financial literacy and independence.

External Auditor:

3. As required by the Board, the external auditor reports directly to the Committee.
4. The Committee must recommend to the Board of Directors;
 - a) the external auditor to be nominated for purposes of preparing or issuing an auditor's report or performing other audit, review or attest services for Empire; and
 - b) the compensation of the external auditor.
5. The Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing the Auditor's Report or performing other audit, review or attest services for Empire, including the resolution of disagreements between management and the external auditor regarding financial reporting.
6. The Committee must pre-approve all non-audit services to be provided to Empire or its subsidiary entities by Empire's external auditor. The Committee has established a policy for certain pre-approvals and has delegated to the Chair of the Committee the authority to pre-approve the non-audit services, with such pre-approval presented to the Audit Committee at the next scheduled Committee meeting following such pre-approval.

Without limiting the foregoing, de minimis non-audit services may be performed by Empire's external auditor without prior approval of the Committee if:

- a) the aggregate amount of all these non-audit services that were not pre-approved is reasonably expected to constitute no more than \$50,000 of the total audit fees paid by Empire and its subsidiaries to Empire's external auditor during the fiscal year in which the services are provided;
- b) Empire or subsidiaries of Empire, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- c) the services are promptly brought to the attention of the Audit Committee of Empire and approved, prior to the completion of the audit, by the Audit Committee or by the Chair of the Audit Committee, who has been granted authority to pre-approve non-audit engagements.

The Committee has instructed management that, to obtain pre-approval, management must detail the work to be performed by the external auditor and obtain the assurance from the external auditor that the proposed work does not impair their independence.

7. The Committee reviews with the external auditors and management all major accounting policies and practices adopted, any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties and key estimates and judgements of management that may be material to financial reporting. The Committee shall also review any significant changes to GAAP or its application.
8. The Committee must review and approve Empire's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of Empire.
9. The Committee ensures through enquiry that the external auditor is in good standing with the Canadian Public Accountability Board (CPAB) and that the lead partner and other partners fulfill the rotation requirements. The Committee also reviews that the relationship with the external auditor and Empire Management is independent with consideration to the requirements set out by the Canadian Securities Administrators and CPA Canada.
10. The Committee receives from the external auditor an outline of the annual audit scope, plan, resources, reliance on management and progress reports against that plan.
11. The Committee reviews the Auditor Report with the external auditors:
 - a) significant findings during the year and management's response thereto;
 - b) any difficulties encountered in the course of their audits, including any restrictions to the scope of their work or access to required information; and
 - c) any changes required to the planned scope of their audit or quarterly reviews.

Risk Management:

12. The Committee annually reviews the adequacy and quality of the insurance coverage maintained by the Company.
13. The Committee reviews and approves risk management policies as recommended by management, receives reports from management on the risk profile of the Company, risk mitigation activities and accepted risk thresholds and provides direction with respect to improvements to risk mitigation or changes to risk threshold. The Committee shall report its recommendations on such matters to the full Board on a regular basis.
14. The Committee reviews the governance of significant business process change and information technology projects.
15. The Committee reviews the Environmental Report, the Litigation Report and the Hedge Report, and reviews their appropriateness.
16. The Committee reviews the status of compliance with laws and regulations and the scope and status of systems designed to ensure compliance therewith, and receives reports from management, legal counsel and other third parties as determined by the Committee on such matters, as well as major legislative and regulatory developments which could impact the Company's contingent liabilities and risks.

Financial Management and Reporting:

17. The Committee reviews and recommends to the Board approval of Empire's interim and annual financial statements, MD&A and quarterly financial and material press releases prior to public disclosure of this information.

18. The Committee reviews and recommends to the Board approval of the Empire and Sobeys dividends.
19. The Committee reviews the financially related disclosures contained in the Annual Report and Annual Information Form.
20. The Committee ensures that adequate disclosure procedures are in place for the review of Empire's public disclosure of financial information extracted or derived from Empire's financial statements, and must periodically assess the adequacy of those disclosure procedures.
21. The Committee reviews the disclosure controls and procedures and internal controls on financial reporting, including any significant deficiencies or material non-compliance with such controls and procedures.
22. The Committee reviews the Corporate Disclosure Policy and the Disclosure Committee Mandate and reviews the minutes of the quarterly Disclosure Committee meetings.
23. The Committee must establish procedures for:
 - a) the receipt, retention and treatment of complaints received by Empire regarding accounting, internal accounting controls, or auditing matters; and
 - b) the confidential, anonymous submission by employees of Empire of concerns regarding questionable accounting or auditing matters.
24. The Committee reviews the status and adequacy of Company's efforts to ensure its businesses are conducted and its facilities are operated in an ethical, legally compliant and socially responsible way, and recommends to the Board, for approval, policy changes and program initiatives considered advisable.

Internal Audit:

25. The Committee annually reviews and approves the Internal Audit Charter and Annual Plan.
26. The Committee receives quarterly reports from, and meets in camera with, the Chief Auditor.
27. The Committee ensures that the Internal Audit function is independent of management and has sufficient resources to carry out its mandate.
28. The Committee approves the appointment, replacement or termination of the Chief Auditor.