Management's discussion and analysis

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The following is Management's Discussion and Analysis ("MD&A") on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 52 weeks ended May 3, 2014 compared to the 52 weeks ended May 4, 2013. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's two business segments, as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

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

This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 3, 2014 compared to the 52 weeks ended May 4, 2013. The audited annual consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD").

These consolidated financial statements include the accounts of Empire, its subsidiaries and Structured Entities ("SEs"), which the Company is required to consolidate. The information in this MD&A is current to June 26, 2014, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

These forward-looking statements include the following items:

- Anticipated benefits from the Canada Safeway ULC ("Canada Safeway") acquisition such as growth prospects, benefits from economies of scale, future business strategy, and expectations regarding operations and strategic fit which may be impacted by the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns and the anticipated retention of Canada Safeway's operational employees;
- The Company's expectation that its operational and capital structure is sufficient to meet its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- The Company's expectation that ongoing litigation matters and claims arising from the ordinary course of business will have no material impact on the Company;
- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved;
- Sobeys Inc.'s ("Sobeys") expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives;

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

These statements are based on management's expectations and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives, and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflects management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risk Management" section of this MD&A.

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

NON-GAAP FINANCIAL MEASURES

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

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

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

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

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 23 of the Company's audited annual consolidated financial statements.
(2) Depreciation and amortization of intangibles from Empire Theatres have been recorded in discontinued operations and, as a result, these figures will not reflect those presented on the Company's condensed consolidated statements of cash flows.

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" and "Investments and Other Operations" sections of this MD&A.
- Adjusted EBITDA margin is adjusted EBITDA divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings from continuing operations before finance costs (net of finance income) and income taxes.
- Operating income margin is operating income divided by sales.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance. Adjusted operating income is reconciled to operating income in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" and "Investments and Other Operations" sections of this MD&A.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting total finance income.

The following table reconciles interest expense to GAAP measures.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 3, 2014**	May 4, 2013(1)	**May 3, 2014**	May 4, 2013(1)
Finance costs, net	**$ 47.6**	$ 13.6	**$ 133.2**	$ 55.4
Plus: finance income	**0.6**	0.7	**10.3**	4.8
Less: fair value losses on forward contracts	**(0.1)**	(0.2)	**(0.6)**	(0.8)
Less: net pension finance costs	**(3.4)**	(2.0)	**(10.4)**	(8.1)
Interest expense	**$ 44.7**	$ 12.1	**$ 132.5**	$ 51.3

Interest expense on financial liabilities measured at amortized cost	**$ 44.7**	$ 12.0	**$ 132.5**	$ 49.6
Losses on cash flow hedges reclassified from other comprehensive income	**–**	0.1	**–**	1.7
Interest expense	**$ 44.7**	$ 12.1	**$ 132.5**	$ 51.3

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

- Adjusted net earnings from continuing operations is net earnings from continuing operations, net of non-controlling interest, excluding items which are considered not indicative of underlying business operating performance. These adjustments include items which are non-recurring or one time in nature and items that result in a truer economic representation of the underlying business on a comparative basis. Adjusted net earnings from continuing operations is reconciled to net earnings from continuing operations, net of non-controlling interest, in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" and "Investments and Other Operations" sections of this MD&A.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt. Management believes that funded debt represents the best indicator of the Company's total financial obligations on which interest payments are made.
- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company's financial obligations after 100 percent of cash and cash equivalents are applied against the total obligation.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.
- Funded debt to total capital ratio is funded debt divided by total capital.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that funded debt to total capital and net funded debt to net total capital ratios represent measures upon which the Company's changing capital structure can be analyzed over time. Increasing ratios would indicate that the Company is using an increasing amount of debt in its capital structure to fund it operations.

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

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

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

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

- Funded debt to EBITDA ratio is funded debt divided by trailing four-quarter EBITDA. Management uses this ratio to partially assess the financial condition of the Company. An increasing ratio would indicate that the Company is utilizing more debt per dollar of EBITDA generated.
- EBITDA to interest expense ratio is trailing four-quarter EBITDA divided by trailing four-quarter interest expense. Management uses this ratio to partially asses the coverage of its interest expense on financial obligations. An increasing ratio would indicate that the Company is generating more EBITDA per dollar of interest expense, resulting in greater interest coverage.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding. The following table shows the calculation of Empire's book value per common share as at May 3, 2014, May 4, 2013 and May 5, 2012.

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

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

- Current assets to current liabilities ratio is current assets divided by current liabilities.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases. Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. Free cash flow is reconciled to GAAP measures as reported on the consolidated statements of cash flows in the "Free Cash Flow" section of this MD&A.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity.

EMPIRE'S STRATEGIC DIRECTION

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

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

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

OVERVIEW OF THE BUSINESS

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

Food Retailing

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

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

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

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

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

Retail Store Network Rationalization

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

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

Investments and Other Operations

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

1. A 41.6 percent (39.3 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 250 commercial properties across Canada, comprising approximately 17.6 million square feet of gross leasable area. Crombie REIT's strategy is to own and operate a portfolio of primarily high quality grocery and drug store anchored shopping centres and freestanding stores in Canada's top 36 markets; and

2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P. and GDC Investments 6, L.P., a 45.8 percent equity accounted interest in GDC Investments 7, L.P., a 43.7 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States.

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

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

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

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

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

DISCONTINUED OPERATIONS

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

Fiscal 2014 Financial Highlights

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

CONSOLIDATED OPERATING RESULTS

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

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

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 23 of the Company's audited annual consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Excludes items which are considered not indicative of underlying business operating performance.
(4) Net of non-controlling interest.

Outlook

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

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

Food Retailing

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

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

Investments and Other Operations

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

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

Shareholder Return

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

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

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

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

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

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

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

The financial performance of each of the Company's segments (food retailing and investments and other operations) is discussed in detail in the section entitled "Fiscal 2014 Financial Performance by Segment" of this MD&A.

Sales

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

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

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

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

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

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

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

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

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

EBITDA

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

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

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

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 23 of the Company's audited annual consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) EBITDA generated from Empire Theatres has been recorded in discontinued operations.
(4) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 includes a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 52 weeks ended May 4, 2013 includes a non-recurring charge of $8.3 million relating to Crombie REIT's restated earnings.

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

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

Operating Income

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

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

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

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

Finance Costs

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

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

Income Taxes

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

Net Earnings from Continuing Operations

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

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

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

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.
(2) Net of non-controlling interest.
(3) All adjustments are net of income taxes.
(4) 52 weeks ended May 3, 2014 includes a non-recurring cost of $1.8 million, net of tax, related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; 52 weeks ended May 4, 2013 includes a non-recurring charge of $5.9 million, net of tax, relating to Crombie REIT's restated earnings.
(5) See "Non-GAAP Financial Measures" section of this MD&A.

Adjusted Net Earnings from Continuing Operations

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

Net Earnings

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

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

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

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

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

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

FISCAL 2014 FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

Highlights

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

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

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

(1) See "Non-GAAP Financial Measures" section of this MD&A.
(2) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

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

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

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

Business Process and Information System Transformation and Rationalization Costs

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

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

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

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

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

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

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

(1) Net of consolidation adjustments which include a purchase price allocation from the privatization of Sobeys.
(2) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.
(3) See "Non-GAAP Financial Measures" section of this MD&A.
(4) Excludes items which are considered not indicative of underlying business operating performance.
(5) Net of non-controlling interest.

Sales

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

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

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

Gross Profit

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

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

EBITDA

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

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

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

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

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

Operating Income

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

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

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

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

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

Net Earnings

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

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

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

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.
(2) Net of non-controlling interest.
(3) All adjustments are net of income taxes.
(4) See "Non-GAAP Financial Measures" section of this MD&A.

Adjusted Net Earnings

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

Investments and Other Operations

Highlights

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

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

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

(1) Results generated from Empire Theatres have been recorded in discontinued operations.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Excludes items which are considered not indicative of underlying business operating performance.
(4) 41.6 percent equity accounted interest in Crombie REIT (May 4, 2013 – 42.8 percent interest).
(5) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 includes a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 52 weeks ended May 4, 2013 includes a non-recurring charge of $8.3 million relating to Crombie REIT's restated earnings.
(6) Interests in Genstar.
(7) 52 weeks ended May 3, 2014 included organizational realignment and restructuring costs of $9.1 million, dilution gains of $3.7 million and a gain on the disposal of assets of $1.2 million (52 weeks ended May 4, 2013 – organizational realignment and restructuring costs of $nil, dilution gains of $17.5 million and a gain on the disposal of assets of $nil).

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

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

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

Sales

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

EBITDA

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

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

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

(1) See "Non-GAAP Financial Measures" section of this MD&A.
(2) EBITDA generated from Empire Theatres has been recorded in discontinued operations.
(3) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 includes a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 52 weeks ended May 4, 2013 includes a non-recurring charge of $8.3 million relating to Crombie REIT's restated earnings.

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

Operating Income

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

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

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

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

Net Earnings

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

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

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

(1) All adjustments are net of income taxes.

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

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

Adjusted Net Earnings from Continuing Operations

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

QUARTERLY RESULTS OF OPERATIONS

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

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

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

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

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

Summary Table of Consolidated Financial Results for the Fourth Quarter

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

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 11 of the Company's fourth quarter unaudited condensed consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Excludes items which are considered not indicative of underlying business operating performance.
(4) Net of non-controlling interest.

Sales

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

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

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

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

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

Gross Profit

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

EBITDA

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

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

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

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

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

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

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

Operating Income

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

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

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

Finance Costs

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

Income Taxes

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

Net Earnings from Continuing Operations

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

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

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

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 11 of the Company's fourth quarter unaudited condensed consolidated financial statements.
(2) Net of non-controlling interest.
(3) All adjustments are net of income taxes.
(4) 13 weeks ended May 4, 2013 includes a non-recurring charge of $1.1 million, net of tax, relating to Crombie REIT's restated earnings.
(5) See "Non-GAAP Financial Measures" section of this MD&A.

Adjusted Net Earnings from Continuing Operations

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

Net Earnings

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

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

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

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

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

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

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

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's audited annual consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Ratios for May 3, 2014 and May 4, 2013 exclude EBITDA and interest expense relating to discontinued operations.

Shareholders' Equity

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

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

	Authorized Number of Shares	Issued and Outstanding Number of Shares	$ in Millions
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	–	$ –
Non-Voting Class A shares, without par value	257,044,056	58,049,484	2,101.0
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 2,108.6

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

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

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

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

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

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

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

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

Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange risk and commodity risk. From time to time, the Company utilizes hedging instruments as deemed appropriate to mitigate risk exposure to one or more types of financial risk. The Company does not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 52 weeks ended May 3, 2014 or for the comparative periods in fiscal 2013.

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

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

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

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at May 3, 2014 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third party quoted bid, ask and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates to determine the fair values. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the estimated amount the Company would pay or receive if it were to settle the contracts at the reporting date.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

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

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

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

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

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

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

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

Operations

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

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

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

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

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

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

Investment

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

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

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

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

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

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

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

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

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

Financing

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

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

Free Cash Flow

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

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

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's audited annual consolidated financial statements.
(2) Excludes $991.3 million related to the sale-leaseback of acquired real estate with Crombie REIT, which was simultaneously used to partially fund the Canada Safeway acquisition.
(3) See "Non-GAAP Financial Measures" section of this MD&A.

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

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

Business Acquisition

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

The agreement included the purchase of:

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

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

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

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

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

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

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

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

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

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

Guarantees and Commitments

Guarantees

Franchise Affiliates

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

Sobeys has a guarantee contract under the terms of which, should certain franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 million or 9.9 percent (fiscal 2013 – $7.0 million or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 3, 2014, the amount of the guarantee was $7.0 million (fiscal 2013 – $7.0 million).

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee, should franchise affiliates be unable to fulfill their equipment lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $70.0 million on a cumulative basis. Sobeys approves each of the contracts.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should franchisee affiliates be unable to fulfill their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 million or 10.0 percent (fiscal 2013 – $6.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SEs. As at May 3, 2014, the amount of the guarantee was $6.0 million (fiscal 2013 – $6.0 million).

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

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

Other

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

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by SERCA Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is six years with an aggregate obligation of $19.5 million (fiscal 2013 – $22.6 million). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Long-Term Debt

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

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

Finance Leases Liabilities

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

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

During fiscal 2014, the Company increased its finance lease obligation, excluding $37.0 million related to the Canada Safeway acquisition, by $2.4 million (fiscal 2013 – $8.8 million) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

Operating Leases, as Lessee

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

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

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

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

Operating Leases, as Lessor

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

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

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

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

ACCOUNTING STANDARDS AND POLICIES

Accounting Standards and Policies Adopted During Fiscal 2014

(i) Employee Benefits

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

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

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

Condensed Consolidated Balance Sheets Increase (Decrease)

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

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

(ii) Consolidated Financial Statements

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

(iii) Joint Arrangements

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

(iv) Disclosure of Interests in Other Entities

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

(v) Fair Value Measurement

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

(vi) Presentation of Financial Statements

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

Future Accounting Policies

(i) Financial Instruments

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

(ii) Financial Instruments: Asset and Liability Offsetting

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

(iii) Levies

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

(iv) Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model and is effective for annual periods beginning on or after January 1, 2017.

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

Critical Accounting Estimates

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

Impairment of Non-Financial Assets

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. Impairment losses related to goodwill cannot be reversed.

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

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

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

Pension Benefit Plans and Other Benefit Plans

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

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

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

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income.

Income Taxes

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

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

Valuation of Inventories

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

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

Provisions

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

Business Acquisitions

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

Disclosure Controls and Procedures

Management of Empire, which includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As at May 3, 2014, the CEO and CFO have evaluated the effectiveness of the Company's DC&P. Based on that evaluation, the CEO and CFO have concluded that the Company's DC&P was effective as at May 3, 2014 and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control over Financial Reporting

Management of Empire, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework (1992)" published by the Committee of Sponsoring Organizations of the Treadway Commission. As at May 3, 2014, the CEO and CFO have evaluated the effectiveness of the Company's ICFR. Based on that evaluation, the CEO and CFO have concluded that the Company's ICFR was effective as at May 3, 2014 and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in the Company's ICFR during the period beginning February 2, 2014 and ended May 3, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

RELATED PARTY TRANSACTIONS

The Company has related party transactions with Crombie REIT. At the end of the fourth quarter of fiscal 2014, the Company held a 41.6 percent ownership interest in Crombie REIT which is accounted for using the equity method. As a result of the issuance of Crombie REIT units and the conversion of Crombie REIT debentures during the current fiscal year, partially offset by the Company's subscription to Class B limited partnership units, the Company's interest in Crombie REIT was reduced from 42.8 percent at the end of fiscal 2013 to 41.6 percent. On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 39.3 percent.

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

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

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

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

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

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

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

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

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

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

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

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

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

SUBSEQUENT EVENTS

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

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

On May 30, 2014, Crombie REIT announced it had closed a bought-deal public offering of units at a price of $13.25 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased approximately $40.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently, the Company's interest in Crombie REIT will be reduced from 41.6 percent to 41.5 percent.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

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

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

CONTINGENCIES

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

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

RISK MANAGEMENT

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

Competition

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

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 800 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. A failure to maintain geographic diversification to reduce the impacts of localized competition could have an adverse impact on Sobeys' operating margins and results of operations. To successfully compete, Sobeys believes it must be customer and market-driven, and to be focused on superior execution and to have efficient, cost-effective operations. It also believes it must invest in its existing store network, as well as its merchandising, marketing and operational execution to evolve its strategic platform to better meet the needs of consumers looking for more affordable, better food options. Any failure to successfully execute in these areas could have a material adverse impact on Sobeys' financial results.

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

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

Food Safety and Security

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

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

Human Resources

The Company is exposed to the risk of labour disruption in its operations and, with the Canada Safeway acquisition, this level of risk has increased appreciably given that Safeway operations are almost entirely unionized. The Company has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2015. However, the Company has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long-term. Any prolonged work stoppages or other labour disputes could have an adverse impact on the Company's financial results.

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

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

Operations

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

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

Technology

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

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

Information Management

The integrity, reliability and security of information in all its forms is critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches and/or inappropriate disclosure or leaks of sensitive information. In addition, gathering and analyzing information regarding customers' purchasing preferences is an important part of the Company's strategy to attract and retain customers and effectively compete.

Information management is identified as a risk in its own right, separate from the technology risk. The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is being managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management. Any failure to maintain privacy of customer information or to comply with applicable privacy laws or regulations could adversely affect the Company's reputation, competitive position and results or operations.

Supply Chain

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

Product Costs

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

Economic Environment

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

Liquidity Risk

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

Interest Rate Fluctuation

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

Business Continuity

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

Insurance

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

Ethical Business Conduct

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

Environmental, Health and Safety

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

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

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

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

Occupational Health and Safety

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

Real Estate

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

Legal, Taxation and Accounting

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

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

Utility and Fuel Prices

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

Credit Rating

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

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro ("EUR") and the USD. USD purchases of products represent approximately 3.6 percent of Sobeys' total annual purchases with EUR purchases limited to specific contracts for capital expenditures. A failure to adequately manage the risk of exchange rate changes could adversely affect the Company's financial results.

Capital Allocation

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

Seasonality

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

Foreign Operations

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

Drug Regulation

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

Pension Plans

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

As a result of the Canada Safeway acquisition, the Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 17.0 percent of employees of Sobeys and its independent franchisees participate in these plans. Sobeys' responsibility to make contributions to these plans is limited by the amounts established in the collective bargaining agreements, however, poor performance of these plans could have a negative effect on Sobeys' employees or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

Leverage Risk

The Company's degree of leverage, particularly since the draw of credit facilities to complete the acquisition could have adverse consequences for the Company, including limiting the Company's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; restricting the Company's flexibility and discretion to operate its business; limiting the Company's ability to declare dividends on its Class A Shares; having to dedicate a portion of the Company's cash flows from operations to the payment of interest on its existing indebtedness and not having such cash flows available for other purposes, including operations, capital expenditures and future business opportunities; exposing the Company to increased interest expense on borrowings at variable rates; limiting the Company's ability to adjust to changing market conditions; placing the Company at a competitive disadvantage compared to its competitors that have less debt; making the Company vulnerable in a downturn in general economic conditions; and making the Company unable to make capital expenditures that are important to its growth and strategies.

Transitional Risk

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

Integration of the Combined Business

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

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

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

Dated: June 26, 2014
Stellarton, Nova Scotia, Canada