

# EMPIRE

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COMPANY LIMITED

## **ANNUAL INFORMATION FORM**

**Year Ended May 3, 2014**

June 30, 2014

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## FORWARD-LOOKING STATEMENTS

All disclosure for Empire Company Limited (“Empire” or “the Company”) is as of fiscal year-end, May 3, 2014, unless otherwise indicated.

This Annual Information Form (“AIF”) 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 AIF, 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”, “may”, “plans”, “will”, “would”, and other similar expressions or the negative of these terms are generally indicative of forward-looking statements.

These statements are based on Empire management’s expectations and beliefs in light of the information currently available to them. The forward-looking information contained in this AIF 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 the Company’s annual Management’s Discussion and Analysis for the 52 weeks ended May 3, 2014, which is incorporated by reference into this AIF, a copy of which has been filed on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

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 AIF reflects the Company’s expectations as of the date of this document, 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.

These forward looking statements include, but are not limited to 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;
- Completion, timing of completion and final proceeds of the divestiture of the remaining store 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 agreement and the ability of the purchaser to fulfill its obligations under that agreement;
- 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 activities;
- 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;
- 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;
- 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;
- Property development plans which may be impacted by the identification and availability of attractive sites, the availability of capital, the approval of zoning requirements and general economic conditions; and
- The Company's understanding of competitive, demographic, lifestyle, health and other trends and its ability to continue to adapt to these trends.

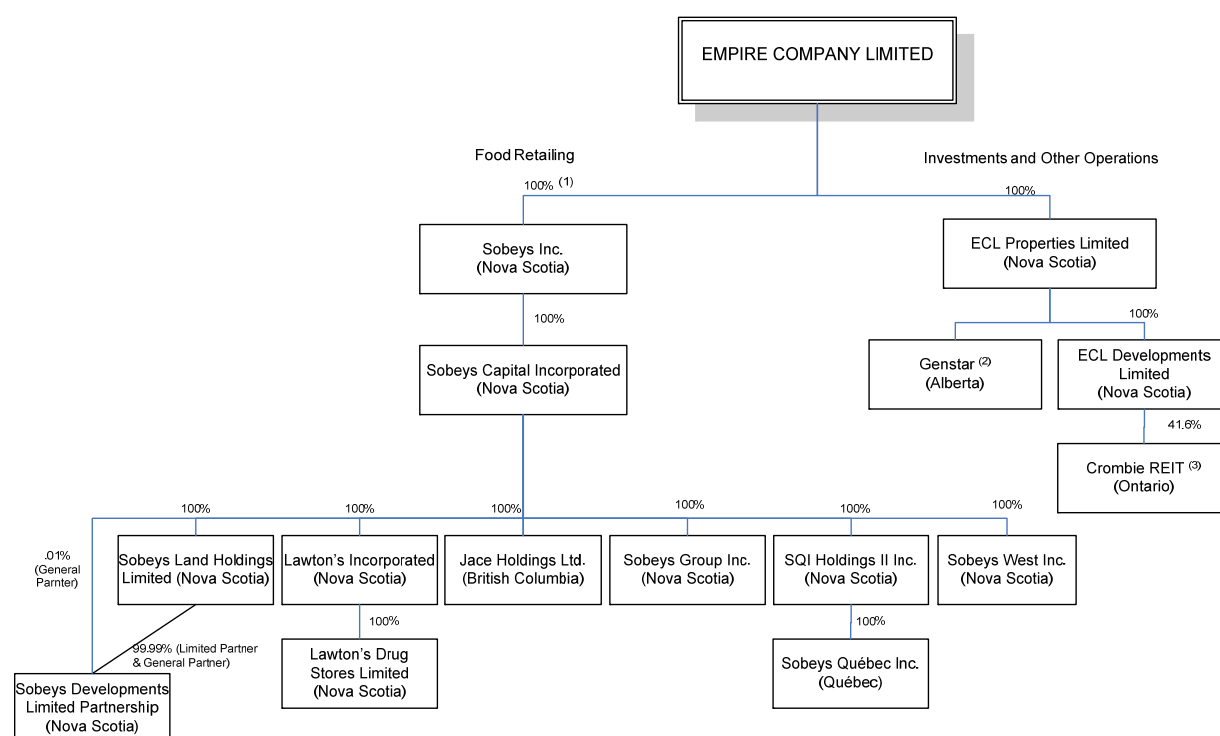
# CORPORATE STRUCTURE

## Name and Incorporation

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

## Intercorporate Relationships

The following chart shows the names of the principal subsidiaries of Empire, their respective jurisdictions of incorporation, and the percentages of voting and non-voting securities owned by Empire as of May 3, 2014.



### Notes:

- (1) Empire owns 19.7% of Sobey's Inc. directly and the balance (80.3%) indirectly through subsidiaries including Empro Holdings Limited (Nova Scotia), Emplink Investments Limited (Nova Scotia) and Empsafe Investments Limited (Nova Scotia).
- (2) ECL Properties Limited ("ECL") indirectly holds a 40.7% equity accounted interest in Genstar Development Partnership (Alberta), a 48.6% equity accounted interest in Genstar Development II Partnership (Alberta), a 49% equity accounted interest in the Fraipont Partnership, a 42.1% equity accounted interest in each of GDC Investments 4, L.P. and GDC Investments 6, L.P., a 45.8% equity accounted interest in GDC Investments 7, L.P. and a 43.7% equity accounted interest in GDC Investments 8, L.P. (collectively referred to as "Genstar").
- (3) Empire owns 909,090 Crombie Real Estate Investment Trust ("Crombie REIT") Units and 50,241,245 Class B Limited Partnership Units of Crombie Limited Partnership (Nova Scotia) which are exchangeable into and equivalent to units of Crombie REIT and represented a 41.6% indirect ownership interest in Crombie REIT as of May 3, 2014 (39.3% on a fully diluted basis). A Special Voting Unit of Crombie REIT is attached to each Class B Limited Partnership Unit.
- (4) Sobey's Capital Incorporated and Sobey's Group Inc. amalgamated effective May 4, 2014 to form Sobey's Capital Incorporated.

# GENERAL DEVELOPMENT OF THE BUSINESS

Empire Company Limited (TSX symbol: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire'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, understands and believes to have the potential for long-term sustainable growth and profitability, specifically Empire's key businesses of food retailing and related real estate.

The Company's financial results are segmented into two separate reportable segments: (i) Food Retailing; and (ii) Investments and Other Operations, which includes the Company's investment in Crombie REIT. The developments of these segments of the Company's business over the past three fiscal years are discussed in the following sections.

## Focus on Food Retailing

Empire's food retailing business is carried on through its wholly-owned subsidiary, Sobeys, which is headquartered in Stellarton, Nova Scotia. Sobeys owns or franchises more than 1,500 stores in all ten provinces under retail banners that include Sobeys, Sobeys *extra*, IGA *extra*, Safeway, Thrifty Foods, IGA, Foodland, FreshCo and Lawtons Drugs stores, as well as more than 350 retail fuel locations under the Safeway, Shell and Fast Fuel banners. Sobeys is committed to providing the most worthwhile experience for its customers, employees, franchise affiliates, suppliers and shareholders.

Following Empire's decision to privatize Sobeys in June 2007, the Company has continued to center its attention on a food-focused strategy, a focus on productivity and innovation and intelligent investment in retail stores and distribution centres. Over the last three fiscal years, Sobeys has continued to grow and develop as a leading Canadian grocery retailer and food distributor. Sobeys has made significant investment during this period to support that growth, through property, equipment and investment property purchases, excluding corporate acquisitions, totalling more than \$1.6 billion.

At the same time, the Company has disposed of its non-food related interests, with the exception of its interest in residential real estate through Genstar, to help fund its food-focused activities. During the second quarter of fiscal 2014, ETL Canada Holdings Limited ("Empire Theatres") completed the sale of 46 theatres with 397 screens, being substantially all of its business, in separate transactions with Cineplex Inc. and Landmark Cinemas. The aggregate gross purchase price paid to Empire Theatres in the two transactions was approximately \$259.2 million in cash. The proceeds of these transactions were used to support the Company's food-focused strategy which included the Canada Safeway acquisition. Previously, on November 7, 2012, the Company sold its petroleum and natural gas properties for \$17.3 million before costs.

### **Canada Safeway Acquisition**

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

The Canada Safeway acquisition included:

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

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

- Empire subscription receipt offering of \$1,844.1 million, net of fees of \$75.8 million, which closed on July 31, 2013;
- A \$991.3 million sale-leaseback with Crombie REIT of acquired real estate assets;

- Term credit facilities of \$2,025.0 million;
- The issuance of \$1,000.0 million in unsecured notes by Sobeys; and
- Available cash on hand.

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

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

Regulatory clearance obtained from the Competition Bureau for the Canada Safeway acquisition required the divestiture of 23 Sobeys and Canada Safeway stores. On February 13, 2014, Sobeys announced that it had entered into binding purchase agreements with Overwaitea Food Group LP and Federated Co-operatives Limited to purchase 22 of the 23 retail stores required to be divested. In addition to the required divestitures, Sobeys agreed to sell to Overwaitea Food Group LP an additional seven stores in British Columbia comprised of both Canada Safeway and Sobeys locations. These transactions have been completed. Sobeys also signed a binding purchase agreement with another retailer for the sale of one retail store which is also required to be divested as part of the Canada Safeway acquisition.

During the fourth quarter, the Company 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.

### ***Expansion and Renovation of Stores***

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

Over the last three fiscal years, Sobeys opened 161 new stores and relocated, expanded, redeveloped and/or converted the banners in 73 stores. In addition, Sobeys acquired 476 new locations inclusive of the Canada Safeway acquisition in fiscal 2014 and 236 retail gas stations and related convenience store operations in fiscal 2012.

### ***Organizational Realignment***

An organizational realignment and corresponding leadership appointments announced in October 2011 were completed in fiscal 2013. Under the realignment, Sobeys formed two business units, each led by a President of Operations. In fiscal 2014, the Company continued to streamline its organizational structure to further reflect its transition to an operationally-focused grocery retailer with related real estate interests. With the Canada Safeway acquisition, a third business unit was created, led by the President, Safeway Operations. Total pre-tax costs associated with this initiative for the past three fiscal years were \$21.3 million, primarily attributed to consulting and severance costs.

## **Brand Positioning**

During fiscal 2014, Sobeys launched its new brand positioning for its Full Service format stores aimed at encouraging and helping Canadians explore the world of better food. The new brand vision was developed from Sobeys' market research and customer insights, which recognized the changing needs of Canadian consumers that management believes creates a strategic opportunity within the Canadian grocery marketplace. The market research suggested that a sizable consumer segment is concerned that "better food" is too expensive, too time consuming to prepare, or too difficult to find and include in their everyday lives. Sobeys strives to provide credible, convenient and affordable better food solutions. The new brand positioning is defined through the tagline *Better Food for All* for Sobeys stores and through *Mieux Manger* for IGA in the Québec market.

In order to deliver on the *Better Food for All* mission, Sobeys Full Service stores are evolving to accommodate the expanded offering. As part of this evolution, in November 2013, Sobeys opened its first Sobeys *extra* concept store in Burlington, Ontario. This new store concept offers customers an inviting atmosphere of food discovery and innovation with extra departments, products, services and savings.

In conjunction with this new brand positioning, Sobeys announced a partnership with chef and food campaigner Jamie Oliver, designed to educate, inspire and empower Canadians to Eat Better, Feel Better and Do Better. Similarly, IGA has teamed up with three food ambassadors in the Québec market - Josée di Stasio, Christian Bégin, and Stefano Faita -- who help inspire Quebecers to eat better. With Sobeys food-focused, fresh-driven offering, these partnerships help further Sobeys commitment to delivering the best food retail experience.

## **Business Process and Information Systems**

Over the last three fiscal years, 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 fiscal 2013, the Company 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.

During fiscal 2013, Sobeys completed an information systems implementation at Thrifty Foods which resulted in streamlined business processes for those stores.

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

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.

## ***Distribution Centres***

Sobeys continues to focus on continuous improvement in its logistics function through system upgrades and improvements, voice pick technology and other logistics productivity software and tools. Sobeys opened its second state-of-the-art distribution facility in Terrebonne, Québec on schedule and commenced operations during the third quarter of fiscal 2013. This facility utilizes the automation technology first implemented at Sobeys distribution centre in Vaughan, Ontario. This technology enables automated stock picking and load assembly systems for improved product selection accuracy and the ability to customize store deliveries according to the unique layout of each store. During the past three fiscal years, Sobeys recognized \$5.4 million of pre-tax costs, excluding capital asset additions, associated with the development of the automated distribution facility in Terrebonne, Québec. The Company has also constructed a new distribution centre near Victoria, British Columbia, which became fully operational during the summer of 2012.

## ***Fuel Strategy***

During fiscal 2012, Sobeys purchased 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada for \$214.9 million. The acquired network includes corporate and dealer operated locations. Sobeys used existing cash balances to finance the transaction. In addition to the valuable cross promotional activities with its broader grocery operation, the acquisition of these retail gas locations complements Sobeys' convenience store operations. During fiscal 2014, as a part of the Canada Safeway acquisition, Sobeys acquired 62 co-located retail gas locations in Western Canada.

## ***Trends***

Over the past decade, there have been considerable changes in food retail, reflecting changing consumer preferences and different lifestyle choices, the rise of dual career families, an aging baby-boom generation and an increase in the overall immigrant population. These changes have resulted in a number of important market shifts related to product diversity and overall choice. First, Canadian consumers are placing greater emphasis on service and convenience, fueling an increased popularity and demand for ready-to-eat, ready-to-serve meals. Second, Canadian consumers are increasingly focused on health and wellness, evidenced by a shift away from foods that are processed or contain high levels of sugar, saturated fat and salt, and towards more fresh, natural and organic foods with simplified ingredient compositions that can be easily understood. The focus on health and wellness is further evidenced by an increased consumer demand for individual or smaller portion sizes. Third, Canadian society is now one of the most culturally and ethnically diverse in the world, with strong European, Asian and South Asian roots. As a result, Canadian consumers are generally quite sophisticated in their appreciation for cuisines of the world, and Canadian shoppers increasingly demand greater availability of ethnic food at the grocery store. Finally, Canadians are becoming increasingly more informed, and concerned, about the sources, quality, environmental impact and sustainability of their food choices, and therefore, are placing greater expectations on those that produce and sell food.

Driven by the need to respond to the changing consumer dynamics outlined above, retailers are expanding their product offering to include more ready-to-eat prepared foods, frozen foods and healthier options, as well as leveraging their real estate to expand their overall mix of product categories. For example, mass merchandisers are expanding their grocery square footage, while grocers are expanding their convenience offerings and selling more non-traditional products.

Management believes that the Company is well positioned to benefit from these consumer and retail trends. Sobeys has focused on and developed an expertise in a broad array of food and fresh offerings, emphasized product innovation, maintained differentiated stores that serve a variety of consumer segments and provided for significant capital investments aimed at modernizing its stores, distribution network and business systems. In addition, Sobeys has continued to expand its strong customer loyalty programs and develop a high-quality, customer service-oriented employee base.

## Related Real Estate

Sobeys has real estate development operations in addition to Empire's investment in Crombie REIT.

### ***Crombie REIT***

The largest component of Empire's investments and other operations is its 41.6 percent (39.3 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust. Crombie REIT began in 2006 upon the transfer of an initial portfolio of properties from Empire subsidiaries, with Empire maintaining a significant ownership interest. 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.

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

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

Fiscal Year Ended	Number of Properties		Aggregate Gross Leaseable Area for Properties Sold	Purchase Price
	Sold to Crombie	Leased-Back from Crombie		
May 3, 2014	71	71	3,144,408	\$1,001.5 million
May 4, 2013	8	7	365,760	\$106.0 million
May 5, 2012	9	7	480,341	\$123.9 million

During fiscal 2012, the Company also acquired a property from Crombie REIT for \$5.0 million, which is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional \$2.0 million was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of \$7.0 million.

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

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

Crombie REIT Offering			Empire Participation <sup>(3)</sup>		
Date	Securities	Aggregate Amount (excluding Empire participation)	Amount	Securities	Price per unit
November 4, 2013	REIT Units	\$225.0 million	\$150.0 million	Class B limited partnership units <sup>(2)</sup>	\$12.70
December 14, 2012	REIT Units	\$35.5 million	\$24.5 million	Class B limited partnership units	\$14.75
July 3, 2012	Series D convertible unsecured subordinated debentures <sup>(1)</sup>	\$36.0 million	\$24.0 million	Series D convertible unsecured subordinated debentures	Not Applicable
March 29, 2012	REIT Units	\$67.1 million	\$53.0 million	Class B limited partnership units	\$14.50
October 20, 2011	REIT Units	\$45.1 million	\$30.0 million	Class B limited partnership units	\$12.85

**Notes:**

- (1) Series D convertible unsecured subordinated debentures have a maturity date of September 30, 2019, a coupon of 5.00 percent per annum and each \$1,000 principal amount 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.
- (2) Class B limited partnership units are convertible on a one-for-one basis into units of Crombie REIT.
- (3) Subsequent to year-end, 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 reduced from 41.6 percent to 41.5 percent.

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.

The cumulative effect of changes to Crombie REIT's capital over the past three years, including offerings and conversions of convertible debentures, resulted in Empire's equity accounted interest in Crombie REIT going from 44.3 percent (40.7 percent fully diluted) at end of fiscal 2012 to 41.6 percent (39.3 percent fully diluted) at May 3, 2014.

## **Investments and Other Operations**

In addition to the investment in Crombie REIT, other investments and other operations include the Company's equity accounted interests in Genstar and formerly included wholly-owned Empire Theatres.

### ***Genstar***

Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States. Over the past three fiscal years, investments in Genstar aggregate \$102.8 million.

### ***Empire Theatres Sale***

During the second quarter of fiscal 2014, Empire Theatres completed the sale of 46 theatres with 397 screens, being substantially all of its business, in separate transactions with Cineplex Inc. and Landmark Cinemas. The aggregate gross purchase price paid to Empire Theatres in the two transactions was approximately \$259.2 million in cash.

## **Corporate**

During the third quarter of fiscal 2012, the Company redeemed all of its 164,900 Series 2 Preferred Shares outstanding, in accordance with their terms. The Series 2 Preferred Shares were redeemed at a price of \$25 per share plus an amount equal to all dividends accrued and unpaid to January 31, 2012.

## **Significant Acquisitions**

Empire filed a Business Acquisition Report on January 17, 2014 for the Canada Safeway acquisition described above under the subheading "Canada Safeway Acquisition". Empire has made no other significant acquisitions over the last three fiscal years requiring the filing of a business acquisition report.

## DESCRIPTION OF THE BUSINESS

Empire is a leading Canadian company headquartered in Stellarton, Nova Scotia, 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. Empire's business consists of two operating segments: Food Retailing, through wholly-owned Sobeys, and Investments and Other Operations which includes: (1) a 41.6 percent equity accounted interest in Crombie REIT; and (2) an interest in Genstar.

Food retailing and related real estate constitute a significant majority of the Company's consolidated sales, adjusted EBITDA, adjusted net earnings from continuing operations and total assets. This reflects Empire's commitment to its food retailing and related real estate businesses.

Food and Related Real Estate Contribution to Empire Consolidated Results for Fiscal Year ended May 3, 2014		
	\$ (millions)	% Consolidated
Sales	\$20,987.8	99.98%
Adjusted EBITDA <sup>(1)</sup>	\$1,020.9	97.85%
Adjusted net earnings from continuing operations <sup>(1)(2)</sup>	\$364.6	95.17%
Total assets	\$11,888.5	97.14%

**Notes:**

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

(2) Net of non-controlling interest.

The Company's historical success reflects the ongoing investment and improvement in the businesses it knows best – food retailing and related real estate. Wholly-owned Sobeys has been proudly serving Canadian food shoppers for 107 years.

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

The Company's financial results are segmented into two separate operating segments: (i) Food Retailing; and (ii) Investments and Other Operations. Segmented financial information for fiscal 2014 and 2013 is contained in the "Notes to the Consolidated Financial Statements", which is incorporated into this AIF by reference, a copy of which has been filed on SEDAR at [www.sedar.com](http://www.sedar.com).












### Food Retailing

The Company's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, a leading national grocery retailer conducting business through over 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada. Sobeys eight major retail banners are: Sobeys, Sobeys *extra*, IGA, IGA *extra*, Thrifty Foods, Foodland, FreshCo and Safeway. The Company also operates over 350 fuel stations under the Shell, Fast Fuel and Safeway banners.

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

**Well Established, Differentiated Stores and Retail Banners**

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

Description	Banner	Count
		283
Stores that feature the broadest assortment of products and specialty items designed for each unique market served. These banners provide superior customer care from full service meat, deli and seafood counters to value-added food knowledge provided by staff.		279
		200
		27
Stores that serve the "fresh fill-in" and "today's meal" needs of customers and are intended to provide superior service and customized offerings.		27
		206
Stores that serve customers with low prices every day, in markets and for customers where price is the driving factor for store selection.		85
Stores that serve the "routine and fill-in" food shopping occasions for customers in rural and one-store communities		90
Stores that serve the "on-the-go" convenience needs of customers		119
Pharmacy, health care, beauty, giftware and convenience store products		78
Fuel stations and related convenience stores		292 <sup>(1)</sup>
Includes various other store formats such as convenience stores in Québec and liquor stores in Western Canada	Various	134
<b>Total</b>		<b>1,820</b>

**Note:**

(1) This number does not include the 63 co-located fuel sites which are included in the Safeway retail location total.

The franchise operations of Sobeys provide operational support to its franchisees and affiliated retailers in such areas as advertising, promotion, merchandising, purchasing, and store planning and design. The objective of this relationship is to provide these retailers with many benefits including a broad range of private label products, information systems, advertising and commercial programs. Sobeys operates franchised and affiliated stores

under the IGA, IGA *extra*, Sobeys, FreshCo, Foodland, Bonichoix, Les Marchés Tradition and Lawtons Drugs Stores banners, along with various retail gas sites.

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

In addition to distribution to corporate and franchised stores, Sobeys provides wholesale distribution of a full range of products to affiliated retail stores and independent wholesale accounts. Sobeys' wholesale business is operated as TRA Atlantic in Atlantic Canada, Lumsden Brothers in Ontario and Macdonalds Consolidated in Western Canada (as a part of Safeway operations). Sobeys also operates "Cash & Carry" wholesale outlets in the West and Atlantic provinces to supply certain convenience store and restaurant operators.

### **Private Label Brands**

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

*Compliments'* sub-brands include *Compliments Organics*, *Compliments Balance* and *Compliments Greencare*, providing organic, healthy, and environmentally sustainable lines of products, respectively. Two new sub-brands were added in fiscal 2014 - *Compliments Gluten-Free*, currently with 18 products, and *Compliments Presents Jamie Oliver Discovers Canada*, with 15 holiday products. These new products are well aligned with Sobeys' new *Better Food For All* positioning and continue to drive trial and brand-awareness.

At the end of fiscal 2014, Sobeys had approximately 4,300 products under all of its private label brands other than those acquired in the Canada Safeway acquisition.

In addition, the Canada Safeway acquisition brought with it a fulsome private label program consisting of approximately 3,300 products over 27 different brands. Following the closing, work began on integrating the two programs with an objective of leveraging the best of both Sobeys and Canada Safeway. When completed, Sobeys will have optimized its assortment, product quality and costing, thus creating an expanded and enhanced program.

Sobeys continues to utilize a consumer panel to test and rate the attributes of targeted products, helping the Company formulate products that engage customers and drive loyalty. As well, customer loyalty data from the Club Sobeys, Club Thrifty Foods and AIR MILES<sup>®</sup> reward programs are used to make better, more informed, customer-centric decisions on the private label program.

### **Loyalty Reward Programs**

Sobeys offers its customers three loyalty reward programs: Club Sobeys (Sobeys stores in Ontario, Manitoba, Saskatchewan, Alberta and eastern British Columbia), Club Thrifty Foods (Thrifty Foods stores on Vancouver Island and the lower mainland) and AIR MILES<sup>®</sup> reward programs (a range of banners in British Columbia, Alberta, Manitoba, Saskatchewan, Ontario, Québec and Atlantic Canada). These reward programs provide Sobeys' customers with discounts, the opportunity to participate in contests, and other loyalty rewards, while providing the company with increased customer loyalty and insight into customer buying habits as part of an overall customer relationship management strategy. These programs are further complemented by the BMO Sobeys AIR MILES<sup>®</sup> MasterCard, the BMO IGA AIR MILES<sup>®</sup> MasterCard, and the BMO Club Sobeys MasterCard.

## **Investments and Other Operations**

### **Crombie REIT**

Crombie REIT was formed and completed its initial public offering in March 2006 as an open-ended real estate investment trust. As at May 3, 2014, the Company, through wholly-owned ECL Developments Limited, held a 41.6

percent ownership interest in Crombie REIT (39.3 percent on a fully diluted basis). Crombie REIT operates a diverse portfolio of commercial real estate with a primary holding of retail properties. Its objectives are to generate reliable and growing cash distributions; to enhance its asset base; and to increase cash available for distribution through accretive acquisitions. Crombie REIT is characterized by its primary focus on grocery and drugstore-anchored retail properties; its long-term approach to operational management through the continued reinvestment in its portfolio; its conservative financial structure and the long-term growth opportunities provided through its relationship with Empire and its subsidiaries.

Since its formation, Crombie REIT has consistently expanded its footprint; at March 31, 2014, the portfolio had grown to 250 properties and 17.6 million square feet of gross leaseable area compared to 44 properties and 7.2 million square feet at the time of the Crombie REIT initial public offering.

Approximately 71 percent of the annual minimum rent in Crombie REIT's portfolio is derived from high-quality, grocery or drugstore-anchored community plazas or stand-alone stores that meet the everyday needs in their communities. Sobeys is Crombie REIT's largest tenant in terms of percentage contribution to total annual minimum rent, representing 49.0 percent of annual minimum rent.

### ***Crombie REIT's relationship with the Company***

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

The strong relationship between the Company and Crombie REIT represents an important strategic partnership that delivers benefits for both entities. The creation of Crombie REIT has supported the Company's expansion and the value of its commercial real estate assets. The Company's ownership interest in Crombie REIT provides the benefits of commercial real estate ownership, including steady income growth and capital appreciation, with a like-minded partner. For Crombie REIT, the relationship provides preferred access to high-quality retail properties, in part through its right of first offer contained in the ROFO Agreement. The strong relationship between Empire, Sobeys and Crombie REIT has supported Crombie REIT's growth and geographical diversification and, as a result of Sobeys' active property development pipeline, is considered a source of future growth.

Since the formation of Crombie REIT in March 2006, a total of 166 investment properties have been sold to Crombie REIT from the Company.

Through its executive management and other employees, Crombie REIT provides general management, financial, leasing and other administration support services to certain real estate subsidiaries of Empire on a cost sharing basis.

At the Company's fiscal year-end, the market value of its 41.6 percent ownership interest in Crombie REIT equaled \$682.9 million as Crombie REIT's total market capitalization reached approximately \$1.6 billion. Crombie REIT has produced a total unitholder return of 128 percent since the initial public offering in March 2006.

### **Genstar**

Genstar is a residential real estate development company headquartered in San Diego, California, USA with Canadian offices in Ontario and Western Canada. Genstar has an experienced and knowledgeable management team that focuses on attractive, residential land holdings in select growth markets. Empire holds equity accounted interests ranging from approximately 40.7 percent to 49.0 percent in the Genstar group of companies.

Empire is represented on Genstar's Board by its Executive Vice-President, Finance.

## Competition

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 sales and profit margins as a result of increased competition. To mitigate this risk, Sobeys' strategy is to be geographically diversified with the benefits of national scale and regional management deployment, to be customer and market-driven, to be focused on superior execution, and to have efficient, cost effective operations. Sobeys reduces its exposure to competitive or economic pressures in any one region of the country by operating in each region of Canada through a network of corporate, franchised, and affiliated stores, and through servicing the needs of thousands of independent, wholesale accounts. As discussed, Sobeys approaches the market with five distinct formats to meet a broader spectrum of its customers' needs in order to enhance profitability by region and target market.

Sobeys' real estate development operations and through Empire's investment in Crombie REIT, compete with numerous other developers, managers and owners of real estate properties in seeking quality tenants and new properties to acquire. 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 sales and cash flows. To mitigate these risks, Sobeys and Crombie REIT maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties. In addition, Crombie REIT maintains strategic relationships with existing and potential tenants to help achieve high occupancy levels are maintained at each of its properties.

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.

All of Empire's operating businesses and equity accounted investments are susceptible to the overall health of the Canadian and to a much lesser extent, U.S. economies and general employment levels.

## Other Information

### ***Supply Chain and Product Availability***

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

The Company continues to focus on continuous improvement in its logistics function through system upgrades and improvements, voice pick technology and other logistics productivity software and tools.

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

## ***Intangible Properties***

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

## ***Seasonality***

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

## ***Employees***

At fiscal year-end 2014, Empire and its subsidiaries employed more than 70,000 full-time and part-time employees. Including franchisees and affiliates, Empire and its subsidiaries employed more than 125,000 full-time and part-time employees.

Sobeys and its franchise affiliates have a total of approximately 300 collective agreements covering approximately 53,000 employees.

Empire, its subsidiaries and franchise affiliates have good relations with their unionized employees and the unions representing those employees, and strive to conclude acceptable collective agreements without work stoppages.

In fiscal 2014, the Canada Safeway acquisition resulted in a substantial increase to Sobeys' labour relations portfolio including a number of collective agreements with various unions in each of the provinces in which Canada Safeway operates.

## ***Bankruptcy***

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

## ***Real Estate***

Sobeys owns certain retail store locations and also leases stores from related parties and third-party landlords. At May 3, 2014, of the 38.7 million square feet of retail store space under operation, 19.6 per cent was owned, 15.7 percent was leased from related parties and the balance was leased from third-party landlords.

With respect to real estate development, the trend has been for large anchor retailers to locate away from enclosed shopping centres to free-standing plaza locations and to seek urban locations. Sobeys continues to address this ongoing trend by: (i) focusing its land banking investment on growing communities; (ii) redeveloping certain community and neighbourhood shopping centres where anchor tenants may be expanded or relocated to free-standing structures; and (iii) accelerating the development of grocery anchored retail shopping centers. Sobeys also focuses its efforts on increased property density and mixed use urban development.

## ***Reorganization***

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

## **Risks**

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

### ***Competition***

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 the Company's operating margins and results of operations. To successfully compete, Sobeys believes it must be customer and market-driven, focused on superior execution and have efficient, cost-effective operations. It also believes it must invest in its existing store network, as well as its merchandising, marketing and operational execution, to evolve its strategic platform to better meet the needs of consumers looking for more affordable, better food options. Any failure to successfully execute in these areas could have a material adverse impact on the Company's financial results.

Sobeys' real estate development operations and Empire, through its investment in Crombie REIT, compete with numerous other developers, managers and owners of real estate properties in seeking 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 Sobeys and 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. Any failure to source appropriate lands for future development could adversely impact Genstar's financial results.

### ***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. Rigorous procedures are in place

to manage food crises, should they occur. These procedures are intended to identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from sale immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs which address safe food handling and preparation standards. Sobeys employs best practices for storage and distribution of food products. 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. A food safety report is reviewed each quarter with the Audit Committee.

### ***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 Canada Safeway's operations are almost entirely unionized. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2015. However, Sobeys 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 franchisee 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***

The Company 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 the Company's 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 the Company's 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 while periods of relative economic weakness could have 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 longer-term debt issuances as deemed prudent in order to minimize risk and optimize pricing. However, there can be no assurance that adequate capital resources will be available in the future on acceptable terms or at all.

## ***Interest Rate Fluctuation***

The Company's long-term debt objective is to maintain the majority of its debt at fixed interest rates 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. Sobeys 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***

Empire 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, maintenance of a whistle-blowing hotline. This hotline is intended for use by employees to report - on an anonymous basis if desired - suspected unethical behavior within the Company. There can be no assurance that these measures will be effective to prevent violations of law or ethical business practices.

## ***Environmental***

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

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

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

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

## ***Occupational Health and Safety***

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

## ***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. Sobeys 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 Sobeys' ability to purchase these 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, 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, 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 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 the credit rating of Sobeys may affect the market value of the Company's securities. In addition, real or anticipated changes in credit rating can affect the cost at which the Company can access the capital markets. The likelihood that the Company's creditors will receive payments owing to them will depend on the Company's 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 the Company's future creditworthiness.

## ***Foreign Currency***

The Company conducts the majority of its operating business in Canadian dollars and its foreign exchange risk is mainly limited to currency fluctuations between the Canadian dollar, the Euro and the U.S. dollar. U.S. dollar purchases of product by the food retailing segment represent approximately 3 percent of Sobeys' total annual purchases with Euro purchases limited to specific contracts for capital expenditures. A failure to adequately manage the risk of exchange rate changes could adversely affect Sobeys' 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 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***

Sobeys and Genstar have certain foreign operations. Sobeys' foreign operations are limited to one produce brokerage operation based in the United States. Genstar's foreign operations are limited to a number of residential land developments in selected markets in the United States.

## ***Drug Regulation***

Legislated changes to generic prescription drug prices continued to impact the Company in fiscal 2014. On January 18, 2013 it was announced that in all provinces, with the exception of Quebec, 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. The Company 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 percent of employees of the Company and its independent franchisees participate in these plans. The Company's 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 affect on the Company's 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.

## ***Dividend Practice***

The Board of Directors of Empire reviews from time to time the adequacy of Empire's dividend practice with the objective of allowing sufficient financial flexibility to continue investing in our business while growing returns to shareholders. Under the current dividend practice, increases in the Non-Voting Class A or Class B common share

dividends are directly linked to growth in Empire's adjusted net earnings. Empire's dividend practice and the declaration of dividends are subject to the discretion of Empire's Board of Directors and, consequently, there can be no guarantee that Empire's dividend practice will be maintained or that dividends will be declared.

### ***Leverage Risk***

The Company's degree of leverage, particularly since the draw of credit facilities to complete the Canada Safeway acquisition, could have adverse consequences for the Company, 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 Non-Voting 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 the Company 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 the designated timeframe.

### ***Integration of the Combined Business***

Empire's 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 Empire's, Sobeys' and Canada Safeway's management and operations staff could significantly affect Empire's business and results of operations. The success of the 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 Empire, Sobeys and Canada Safeway. The integration of the businesses 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 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 Empire, 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 Empire.

## DIVIDENDS

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

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

During fiscal 2014, the Company paid common dividends of \$83.3 million (\$1.04 per share) to Non-Voting Class A and Class B common shareholders versus \$65.2 million (\$0.96 per share) in fiscal 2013.

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

	Annual Dividend Rate		
	Fiscal 2014	Fiscal 2013	Fiscal 2012
Series 2 preferred shares	n/a	n/a	\$0.42 <sup>(1)</sup>
Non-Voting Class A shares	\$1.04	\$0.96	\$0.90
Class B common shares	\$1.04	\$0.96	\$0.90

**Note:**

- (1) During the third quarter of fiscal 2012, the Company redeemed all of its 164,900 Series 2 Preferred Shares outstanding, in accordance with their terms.

## CAPITAL STRUCTURE

### Share Capital

Empire's capital structure as at May 3, 2014 was as follows:

	Number of Shares Authorized	Number of Shares Issued & Outstanding	\$ in Millions
2002 preferred shares, par value of \$25 each, issuable in series	991,980,000	-	\$ -
Non-Voting Class A shares, without par value	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 compared 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 (fiscal 2013 – 45,310 options granted, nil purchased, nil exercised and nil forfeited).

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.

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.

From time to time, Empire will acquire, repurchase, or redeem its own securities. During fiscal 2014 and fiscal 2013 the Company did not purchase for cancellation any Non-Voting Class A shares under Empire's Normal Course Issuer Bid.

### ***Non-Voting Class A Shares and Class B Common Shares***

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

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

If a formal take-over bid (other than a "Family Share Transaction" described below) is made for Class B common shares, then the conditions attaching to the Class B common shares and Non-Voting Class A shares generally

provide that Canadian holders of Class B common shares shall also be entitled to receive an offer to purchase their Class B common shares and Canadian holders of Non-Voting Class A shares shall also be entitled to receive an offer to purchase their Non-Voting Class A shares on terms and conditions at least as favourable, including the price offered. If an offeror acquires Class B common shares pursuant to a formal take-over bid and does not make the same offer for Non-Voting Class A shares within 60 days, then the Class B common shares acquired pursuant to the offer as well as some other Class B common shares held by the offeror and any others acting jointly or in concert with the offeror, shall convert to Non-Voting Class A shares.

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

## **2002 Preferred Shares**

The 2002 preferred shares are issuable in series, with each series consisting of such number of shares and having such provisions as may be determined by the directors of the Company prior to issue. The 2002 Preferred shares rank in preference over Non-Voting Class A shares. Class B common shares are subordinate to the preferred shares in respect to the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. The 2002 Preferred shares of each series rank equally with the 2002 preferred shares of every other series in respect to the payment of dividends and in the distribution of assets. The Company may not create or issue any shares ranking in priority or on a parity to the 2002 preferred shares as to the payment of dividends or the distribution of assets without the approval of two thirds of the preferred shareholders.

## **Long-Term Debt**

The Company has the following long-term debt outstanding:

(\$ in millions)	As at May 3, 2014	As at May 4, 2013
Long-term debt due within one year	\$ 218.0	\$ 47.6
Long-term debt	3,279.9	915.9
	\$ 3,497.9	\$ 963.5

Pursuant to an agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of \$1,825.0 million; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of \$1,327.9 million; and a revolving term credit facility (the "RT Facility") in the amount of \$450.0 million. The Acquisition Facility matures November 4, 2017. The Bridge Facility matures November 4, 2014 but may be extended at Sobeys' option per the terms of the credit agreement. The RT Facility matures on November 4, 2017. Interest payable on the facilities fluctuates with changes in the bankers' acceptance rate or Canadian prime rate.

On November 4, 2013, the RT Facility replaced Sobeys' previous unsecured revolving term credit facility of \$450.0 million, the Acquisition Facility was fully drawn for \$1,825.0 million and the Bridge Facility was drawn for \$200.0 million in order to partially finance the Canada Safeway acquisition. The total amount of the Bridge Facility was reduced to \$200.0 million from \$1,327.9 million following the draw down as per the terms of the credit agreement. Deferred financing fees in the amount of \$29.3 million were incurred on the draw down of the Acquisition and Bridge Facilities and have been offset against the long-term debt amounts for presentation purposes. As of May 3, 2014, Sobeys had issued \$83.0 million in letters of credit against the revolving term credit facility (May 4, 2013 - \$80.6 million).

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.

On June 4, 2010, the Company renewed its credit facility which was reduced from \$650.0 million to \$450.0 million. On August 22, 2011, the Company extended the term of its credit facility to a maturity date of June 30, 2014. On September 26, 2012, the Company further extended the term of its credit facility to a maturity date of June 30, 2015. And, on November 4, 2013, Empire further extended the term of its credit facility to a maturity date of November 4, 2017. At May 3, 2014, the credit facility had a balance outstanding of \$181.0 million (May 4, 2013 - \$181.0 million). The credit facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers’ acceptances (“BA”) rate loans, Canadian prime rate loans, U.S. base rate loans or LIBOR loans), fluctuations in the underlying rates, and in the case of the BA rate loans or LIBOR loans, the margin applicable to the financial covenants.

Sobeys has the following medium term notes (“MTNs”) and Notes outstanding:

(\$ in millions)	As at May 3, 2014	As at May 4, 2013
MTN Series C, interest rate 7.16%, due February 26, 2018	\$ 100.0	\$ 100.0
MTN Series D, interest rate 6.06%, due October 29, 2035	175.0	175.0
MTN Series E, interest rate 5.79%, due October 6, 2036	125.0	125.0
MTN Series F, interest rate 6.64%, due June 7, 2040	150.0	150.0
Series 2013-1 Notes, interest rate 3.52%, due August 8, 2018	500.0	-
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	500.0	-
	\$ 1,550.0	\$ 550.0

Sobeys has Sinking Fund Debentures, in aggregate, of \$14.0 million outstanding (fiscal 2013 - \$28.3 million) with a weighted average interest rate of 9.51 percent, due 2014 - 2016.

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

## Credit Ratings (Canadian Standards)

Sobeys’ credit ratings for its securities at fiscal year-end May 3, 2014, are as follows:

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

During fiscal 2014, following the announcement of the Asset Purchase Agreement to acquire substantially all of the assets and select liabilities of Canada Safeway, S&P reaffirmed Sobeys’ credit rating of BBB- but revised its outlook from stable to negative. DBRS downgraded Sobeys’ credit rating from BBB with a stable trend to BBB (low) with a stable trend.

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

DBRS’ credit ratings for long-term debt instruments range from AAA to D. The DBRS BBB rating exhibits adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions

present which reduce the strength of the entity and its related securities. Ratings designations may be modified by the addition of a high or low to indicate relative standing within the BBB category. Each DBRS rating category is appended with one of three rating trends: "Positive", "Stable" or "Negative". The rating trend helps to give an investor an understanding of DBRS' opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

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

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

## MARKET FOR SECURITIES

The Non-Voting Class A shares (symbol EMP.A) are listed on the Toronto Stock Exchange. The monthly closing high and low share price and the monthly average volume for the Non-Voting Class A shares for the fiscal year ended May 3, 2014 are as follows:

### Empire Company Limited Non-Voting Class A shares

Month	High (\$ per share)	Low (\$ per share)	Average Daily Volume by Month (in shares)
May 5-31/13	\$71.26	\$67.20	58,999
June 1-30/13	\$80.42	\$67.61	180,856
July 1-31/13	\$82.12	\$78.00	328,924
August 1-31/13	\$82.37	\$80.26	131,798
September 1-30/13	\$83.24	\$74.35	284,656
October 1-31/13	\$77.64	\$73.73	123,469
November 1-30/13	\$80.35	\$75.59	399,697
December 1-31/13	\$75.90	\$72.04	348,227
January 1-31/14	\$73.29	\$70.22	214,727
February 1-28/14	\$72.22	\$69.47	196,663
March 1-31/14	\$70.53	\$65.84	334,368
April 1-30/14	\$67.11	\$65.05	283,138
May 1-3/14	\$68.63	\$68.29	134,786

Subscription Receipts (symbol EMP.R) were listed on the Toronto Stock Exchange. Upon closing of the Canada Safeway acquisition, Subscription Receipts were exchanged for Non-Voting Class A shares.

Month	High (\$ per share)	Low (\$ per share)	Average Daily Volume by Month (in shares)
May 5-31/13	n/a	n/a	n/a
June 1-30/13	n/a	n/a	n/a
July 1-31/13	\$80.30	\$80.30	2,664,687
August 1-31/13	\$81.81	\$79.68	69,906
September 1-30/13	\$82.80	\$74.30	177,833
October 1-31/13	\$78.00	\$73.64	34,504
November 1-30/13	\$77.85	\$77.47	10,425
December 1-31/13	n/a	n/a	n/a
January 1-31/14	n/a	n/a	n/a
February 1-28/14	n/a	n/a	n/a
March 1-31/14	n/a	n/a	n/a
April 1-30/14	n/a	n/a	n/a
May 1-3/14	n/a	n/a	n/a

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated, three-year financial information relating to the Company is included in Empire's Management's Discussion and Analysis for the fiscal year ended May 3, 2014, which is incorporated into this AIF by reference, a copy of which has been filed on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, the following table provides summary financial information for Empire over the last three fiscal years.

	Fiscal Year Ended		
	May 3, 2014 (52 weeks)	May 4, 2013 (52 weeks)	May 5, 2012 (52 weeks)
<i>(\$ in millions, except per share information)</i>			
Sales	\$ 20,993.0	\$ 17,400.8	\$ 16,249.1
Operating income	328.5	573.2	534.3
Adjusted operating income <sup>(1)</sup>	630.2	553.4	513.9
Net earnings from continuous operations <sup>(2)</sup>	151.0	372.3	339.4
Net earnings <sup>(2)</sup>	235.4	379.5	339.4
Adjusted net earnings from continuous operations <sup>(1)(2)</sup>	383.1	356.8	322.7
Long-term debt, excluding current portion	\$ 3,279.9	\$ 915.9	\$ 889.1
Shareholders' equity <sup>(2)</sup>	5,700.5	3,724.8	3,396.3
Total assets	12,238.0	7,140.4	6,913.1
<b>Per Share Information, fully diluted</b>			
Net earnings from continuous operations <sup>(2)</sup>	\$ 1.88	\$ 5.47	\$ 4.99
Net earnings <sup>(2)</sup>	\$ 2.93	\$ 5.58	\$ 4.99
Adjusted net earnings from continuous operations <sup>(1)(2)</sup>	\$ 4.78	\$ 5.24	\$ 4.74

**Notes:**

- (1) Excludes items which are considered not indicative of underlying business operating performance.  
(2) Net of non-controlling interest.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Reference is made to the Company's Management's Discussion and Analysis for the fiscal year ended May 3, 2014, which is incorporated into this AIF by reference, a copy of which has been filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## DIRECTORS AND OFFICERS

The name, province of residence, and principal occupation of each of the directors and officers of Empire as at May 3, 2014 were as follows:

### Directors

Name and Province of Residence	Office	Principal Occupation	Director Since
BONNIE BROOKS <sup>(3)</sup> Ontario, Canada	Director	Vice Chairman, Hudson's Bay Company	2012
CYNTHIA DEVINE <sup>(1)</sup> Ontario, Canada	Director	CFO, Tim Hortons Inc.	2013
ROBERT P. DEXTER Nova Scotia, Canada	Chair	Chair and CEO, Maritime Travel Inc. (Travel agency)	1987
DAVID S. FERGUSON <sup>(3)(9)</sup> Georgia, United States	Director	Principal, D.S. Ferguson Enterprises, LLC. (Consulting firm)	2007
EDWARD C. HARSANT <sup>(1)(5)(7)</sup> Ontario, Canada	Director	Corporate Director	2003
DAVID A. LESLIE <sup>(2)(5)(7)(9)</sup> Ontario, Canada	Director	Corporate Director	2007
KEVIN LYNCH <sup>(3)(6)(8)</sup> Ontario, Canada	Director	Vice Chairman, BMO Financial Group	2013
MARC POULIN Québec, Canada	Director, President and CEO	President and CEO, Empire Company Limited President and CEO, Sobeys Inc.	2012
STEPHEN J. SAVIDANT <sup>(4)(5)(7)</sup> Alberta, Canada	Director	Chairman, Enerflex Ltd.	2004
DAVID F. SOBEY Nova Scotia, Canada	Director	Chair Emeritus, Sobeys Inc.	1963
DONALD R. SOBEY Nova Scotia, Canada	Director	Chair Emeritus, Empire Company Limited	1963
FRANK C. SOBEY <sup>(10)</sup> Nova Scotia, Canada	Director	Vice President, Real Estate, Empire Company Limited <sup>(11)</sup>	2007
JOHN R. SOBEY <sup>(1)</sup> Nova Scotia, Canada	Director	Corporate Director	1979
KARL R. SOBEY <sup>(5)</sup> Nova Scotia, Canada	Director	Corporate Director	2001
PAUL D. SOBEY Nova Scotia, Canada	Director	Corporate Director	1993

<b>Name and Province of Residence</b>	<b>Office</b>	<b>Principal Occupation</b>	<b>Director Since</b>
ROB G. C. SOBEY <sup>(9)</sup> Nova Scotia, Canada	Director	Corporate Director	1998
MARTINE TURCOTTE <sup>(1)</sup> Québec, Canada	Director	Vice Chair, Québec, BCE Inc. and Bell Canada	2012

- (1) Audit Committee Member
- (2) Audit Committee Chair
- (3) Human Resources Committee Member
- (4) Human Resources Committee Chair
- (5) Corporate Governance Committee Member
- (6) Corporate Governance Committee Chair
- (7) Nominating Committee Member
- (8) Nominating Committee Chair
- (9) Oversight Committee Member
- (10) Oversight Committee Chair
- (11) Frank Sobey retired in June 2014 as Vice President Real Estate, Empire.

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

## Executive Officers Who are Not Directors

<b>Name and Province of Residence</b>	<b>Occupation</b>
PAUL BEESLEY <sup>(1)</sup> Nova Scotia, Canada	Chief Development Officer, Sobeys
CLINTON KEAY Nova Scotia, Canada	Executive Vice President, Finance, Empire and Sobeys
STEWART H. MAHONEY Nova Scotia, Canada	Vice President, Treasury and Investor Relations, Empire Senior Vice President Treasury and Investor Relations, Sobeys
KARIN McCASKILL Ontario, Canada	Secretary, Empire Senior Vice President and General Counsel and Secretary, Sobeys
CHARLES MULVENNA British Columbia, Canada	President, Safeway Operations, Sobeys
JASON POTTER Nova Scotia, Canada	President, Sobeys Multi-Format Operations, Sobeys
CLAUDE TESSIER Québec, Canada	President, Sobeys IGA Operations, Sobeys
FRANÇOIS VIMARD Ontario, Canada	CFO, Empire CFAO, Sobeys

Note:

- (1) Paul Beesley resigned effective May 16, 2014.

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

- Bonnie Brooks, who prior to February 2014 was President of Hudson's Bay Company;
- Paul Beesley, who prior to January 2014 was Executive Vice President and CFO, Empire;
- Clinton Keay, who prior to February 2014 was Senior Vice President & Chief Information Officer, Sobeys Capital Incorporated. Prior to October 2011 he was Senior Vice President, Information and Technology and Business Process Optimization;
- Charles Mulvenna, who prior to November 2013 was President and Chief Operating Officer of Canada Safeway Limited;
- Jason Potter, who prior to October 2011 was President Operations, Sobeys Atlantic;
- Stephen J. Savidant, who prior to June 2011 was Chairman of ProspEx Resources Ltd. Effective June 1, 2011, Mr. Savidant became a director and Chair of the board of Enerflex Ltd;
- Marc Poulin, who prior to December 13, 2013 was President and CEO, Sobeys. Prior to June 29, 2012 he was President, Sobeys IGA Operations. Prior to October 2011 he was President Operations, Sobeys Québec;
- Frank Sobey, who prior to June 1, 2014 was Vice President Real Estate, Empire;
- Paul Sobey, who prior to December 12, 2013 was President and CEO, Empire;
- Rob C.G. Sobey, who prior to January 2014 was President and CEO, Lawtons' Drug Stores Limited;
- Claude Tessier, who prior to June 2012 was Senior Vice President & Strategic Planning, Sobeys Québec Inc.; and
- François Vimard, who prior to February 2014 was Executive Vice President, Sobeys. Prior to October 2011 he was Chief Financial Officer of Sobeys.

As of May 3, 2014, the number of Class B common shares of Empire beneficially owned, directly or indirectly, or over which control or direction is exercised by the directors and executive officers of Empire as a group is 22,742,334 or approximately 66.4 percent of those issued and outstanding.

## Other Proceedings

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

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

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

- a) is, as at the date of this AIF, or was within 10 years before the date of this AIF, a director or executive officer of any company (including a personal holding company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than : (i) David Leslie who until January 14, 2009 was a director of Canwest Global Communications Corp. which on October 6, 2009 sought and obtained an order commencing proceedings under *Companies' Creditors Arrangement Act* (Canada); (ii) David Ferguson who is a director of Exide Technologies which filed a voluntary Chapter 11 petition to restructure its U.S. operations on June 10, 2013, as a consequence of which Exide Technologies was delisted on June 24, 2013;
- b) has, as at the date of this AIF, or within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the trustee, executive officer or shareholder; or
- c) has been subject to:
  - (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
  - (ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

## **Conflict of Interest**

No director or officer of the Company has any existing or potential material conflicts of interest with the Company or any of its subsidiaries.

## **TRANSFER AGENT AND REGISTRAR**

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

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Mandate**

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

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

## Audit Committee Composition

The members of the Audit Committee, at the fiscal year ended May 3, 2014, and their relevant education and experience are:

1. David Leslie (Chair)
  - Bachelor of Arts, University of Toronto.
  - Fellow of the Institute of Chartered Accountants of Ontario.
  - Currently a director of Sobeys Inc., Enbridge Inc., Enbridge Gas Distribution Inc. and a trustee of Crombie REIT.
  - Formerly Chairman and CEO of Ernst & Young LLP and Chair of Sunnybrook Health Sciences Centre.
2. Cynthia Devine
  - Honours Business Administration degree, the Richard Ivey School of Business at the University of Western Ontario.
  - Fellow of the Canadian Institute of Chartered Accountants
  - Currently the Chief Financial Officer (CFO) of Tim Hortons Inc.
  - Currently a director of Sobeys Inc. and the Treasurer of the Tim Horton Children's Foundation, a member of Canada's Walk of Fame Board of Directors and a member of the Ivey Advisory Board for the Richard Ivey School of Business.
  - Formerly the Senior Vice-President of Finance at Maple Leaf Foods from 2001 to 2003. From 1992 to 2001 she worked for Pepsi-Cola Canada in several finance roles, including CFO from 1999 – 2001.
  - Former member of the Board of Directors of ING Direct Canada from 2009 until its sale to Scotiabank in 2012.
3. Edward C. Harsant
  - Currently a director of Sobeys Inc.
  - Formerly President, Stonehedge Partners. Prior to that he was President, North American stores for Staples, Inc. and prior to that he was President, The Business Depot Ltd.
  - Former Chair of the Advisory Board of Lawton's Drug Stores Limited, former Chair of the Retail Council of Canada and former director of the Canadian Special Olympics. He was also previously a member of the Advisory Board of Bargain Shops Holdings Inc. and a member of the Advisory Board of South Shore Industries Ltd.
4. John R. Sobey
  - Past President and Chief Operating Officer of Sobeys Inc.
  - 34 years of retail grocery experience at Sobeys – having begun his career in the retail stores and progressed in various management roles in merchandising, category management and retail store operations.
  - Currently a director of Sobeys Inc.
  - Formerly a director of Medavie Inc.
5. Martine Turcotte
  - Masters of Business Administration degree from the London Business School and Bachelors of Civil Law degree and Common Law degree from McGill University.
  - Currently Vice Chair, Québec of BCE Inc. and Bell Canada.
  - Currently a director of Bell Aliant Inc., CIBC and Sobeys Inc..
  - Currently a member of the Board of Trade of Metropolitan Montreal and the board of Sir Mortimer B. Davis – Jewish General Hospital. She is also a member of the Board of Governors of McGill University and the Chair of the Board of Théâtre Espace Go Inc.
  - Formerly Executive Vice-President and Chief Legal & Regulatory Officer of BCE and Bell Canada. She first joined BCE in August 1988 as legal counsel and has held numerous positions in the BCE group with Bell Canada International Inc., BCE Media and Bell Canada.

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

### ***Pre-Approval Policies and Procedures***

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

### ***External Auditor Service Fees (by Category)***

Grant Thornton LLP and its predecessors have served as auditors of Empire for more than 50 years. During fiscal 2014 and fiscal 2013, fees charged by Grant Thornton LLP to the Company and its subsidiaries were as follows:

<b>Auditors' Fees for Empire Company Limited and its Subsidiaries</b>	<b>Fiscal Year Ended</b>	
	<b>May 3, 2014</b>	<b>May 4, 2013</b>
Audit Fees	\$3,110,636	\$2,417,744
Audit Related Fees	272,849	324,219
Tax Fees	307,013	264,883
Other Fees	60,142	55,796
<b>Total Fees</b>	<b>\$3,750,640</b>	<b>\$3,062,642</b>

Audit fees include fees for the audit of the annual consolidated financial statements, audits of other required financial statements and reviews of quarterly interim financial statements.

Audit related fees are for services including consultations on accounting and disclosure matters and French translation.

Tax fees include tax planning and project based assignments related to regulatory compliance.

Other fees for the year ended May 3, 2014 include Canadian Public Accountability Board fees as well as other services provided by Grant Thornton LLP for project based assignments that are not audit or audit related.

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

## **MATERIAL CONTRACTS**

The Company has not entered into any contract, other than in the ordinary course of business, that is material to the Company and that was either entered into since January 1, 2002, and is still in effect or was entered into within the most recently completed fiscal year, other than the Asset Purchase Agreement for the acquisition Canada Safeway acquisition, described under the heading entitled, "General Development of the Business – Focus of Food Retailing – Canada Safeway Acquisition".

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Company is not, and was not during fiscal 2014, a party or subject to any legal proceedings or group of similar proceedings, nor are any such proceedings known to the Company to be contemplated, where the amount involved, exclusive of interest and costs, exceeds 10 percent of the current assets of the Company.

There were no penalties or sanctions imposed against the Company by, and no settlement agreements entered into by the Company with, a court relating to securities legislation or a securities regulatory authority during fiscal 2014.

## **INTEREST OF EXPERTS**

The Company's auditors are Grant Thornton LLP, who have prepared the Independent Auditors' Report to Shareholders in respect of its audited annual consolidated financial statements. Grant Thornton LLP have confirmed that they are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada.

## **ADDITIONAL INFORMATION**

Additional information with respect to directors' and officers' remuneration and indebtedness, principal holders of Empire's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in Empire's Management Information Circular to be issued in connection with its Annual General Meeting of Shareholders to be held on September 11, 2014. Additional financial information is provided in the Company's audited financial statements for its last fiscal year ended May 3, 2014 and the related annual Management's Discussion and Analysis. A copy of such documents may be obtained by request from the investor relations department of Empire, via the Empire website at: [www.empireco.ca](http://www.empireco.ca), or on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX A – SOBEYS' GEOGRAPHIC AND BANNER PROFILE

All information is as of May 3, 2014

### FULL, FRESH & COMMUNITY SERVICE SUPERMARKETS

<i>Geographic Area</i>	<i>Sobeys</i>	<i>IGA</i>	<i>IGA extra</i>	<i>Foodland</i>	<i>Bonichoix</i>	<i>Le Marchés Tradition</i>	<i>Thrifty Foods</i>	<i>Safeway</i>
Newfoundland and Labrador	14	-	-	26	-	-	-	-
Prince Edward Island	5	-	-	2	-	-	-	-
Nova Scotia	42	-	-	20	-	-	-	-
New Brunswick	24	-	-	10	-	-	-	-
Québec	-	155	124	-	90	36	-	-
Ontario	94	-	-	148	-	-	-	6
Manitoba	19	8	-	-	-	-	-	33
Saskatchewan	11	2	-	-	-	-	-	15
Alberta	71	15	-	-	-	-	-	79
British Columbia	3	2	-	-	-	-	27	67
<b>TOTAL</b>	<b>283</b>	<b>182</b>	<b>124</b>	<b>206</b>	<b>90</b>	<b>36</b>	<b>27</b>	<b>200</b>

### DRUG, DISCOUNT AND OTHER CONVENIENCE STORES

<i>Geographic Area</i>	<i>FreshCo</i>	<i>Price Chopper</i>	<i>Rachelle-Béry</i>	<i>Needs</i>	<i>Bonisoir</i>	<i>Lawtons</i>
Newfoundland and Labrador	-	-	-	35	-	18
Prince Edward Island	-	-	-	11	-	5
Nova Scotia	-	-	-	61	-	44
New Brunswick	-	-	-	12	-	11
Québec	-	-	21	-	9	-
Ontario	85	2	-	-	-	-
Manitoba	-	1	-	-	-	-
Saskatchewan	-	-	-	-	-	-
Alberta	-	-	-	-	-	-
British Columbia	-	-	-	-	-	-
<b>TOTAL</b>	<b>85</b>	<b>3</b>	<b>21</b>	<b>119</b>	<b>9</b>	<b>78</b>

APPENDIX A – continued

**DRUG, DISCOUNT AND OTHER CONVENIENCE STORES - continued**

<i>Geographic Area</i>	<i>Cash &amp; Carry</i>	<i>Sobeys Spirits, Wine &amp; Cold Beer</i>	<i>Retail Gas Sites<sup>(1)</sup></i>	<i>IGA Express</i>	<i>IGA Mini</i>	<i>Safeway Liquor</i>
Newfoundland and Labrador	1	-	2	-	-	-
Prince Edward Island	-	-	1	-	-	-
Nova Scotia	3	-	62	-	-	-
New Brunswick	1	-	11	-	-	-
Québec	-	-	216	3	1	-
Ontario	-	-	-	-	-	-
Manitoba	3	-	-	-	-	-
Saskatchewan	-	-	-	-	-	-
Alberta	-	43	-	-	-	10
British Columbia	-	-	-	-	-	-
<b>TOTAL</b>	<b>8</b>	<b>43</b>	<b>292</b>	<b>3</b>	<b>1</b>	<b>10</b>

**Note:**

(1)The total retail gas sites in the column do not include the 63 co-located fuel sites which are included in the Safeway retail location total.

**DISTRIBUTION CENTRES**

<i>Geographic Area</i>	<i>Distribution Centres</i>
Newfoundland and Labrador	2
Prince Edward Island	-
Nova Scotia	4
New Brunswick	1
Québec	6
Ontario	3
Manitoba	2
Saskatchewan	-
Alberta	5
British Columbia	6
<b>TOTAL</b>	<b>29</b>

**CORPORATE AND FRANCHISED STORES – BY GEOGRAPHIC AREA**

<i>Geographic Area</i>	<i>Corporate Stores</i>		<i>Franchised Stores</i>	
	<i>Number</i>	<i>Square Footage</i>	<i>Number</i>	<i>Square Footage</i>
Atlantic	351	5,065,620	70	368,739
Québec	171	1,013,216	484	9,901,280
Ontario	105	3,707,677	230	5,156,012
West	248	8,339,914	62	1,503,112
British Columbia	96	3,569,411	3	60,044
<b>TOTAL</b>	<b>971</b>	<b>21,695,838</b>	<b>849</b>	<b>16,989,187</b>

**CORPORATE AND FRANCHISED STORES – BY BANNER**

	<b>Sobeys</b>	<b>IGA</b>	<b>IGA extra</b>	<b>Foodland</b>	<b>Bonichoix</b>	<b>Le Marchés Tradition</b>	<b>Thrifty Foods</b>	<b>Safeway</b>
Corporate	220	9	12	42	1	1	27	200
Franchise	63	173	112	164	89	35	-	-
<b>TOTAL</b>	<b>283</b>	<b>182</b>	<b>124</b>	<b>206</b>	<b>90</b>	<b>36</b>	<b>27</b>	<b>200</b>

	<b>FreshCo</b>	<b>Price Chopper</b>	<b>Rachelle-Béry</b>	<b>Needs</b>	<b>Bonisoir</b>	<b>Lawtons</b>
Corporate	12	3	21	119	8	75
Franchise	73	-	-	-	1	3
<b>TOTAL</b>	<b>85</b>	<b>3</b>	<b>21</b>	<b>119</b>	<b>9</b>	<b>78</b>

	<b>Cash &amp; Carry</b>	<b>Sobeys Spirits, Wine &amp; Cold Beer</b>	<b>Retail Gas Sites</b>	<b>IGA Express</b>	<b>IGA Mini</b>	<b>Safeway Liquor</b>
Corporate	8	43	160	-	-	10
Franchise	-	-	132	3	1	-
<b>TOTAL</b>	<b>8</b>	<b>43</b>	<b>292</b>	<b>3</b>	<b>1</b>	<b>10</b>

## **APPENDIX B**

# **EMPIRE COMPANY LIMITED**

### **AUDIT COMMITTEE MANDATE**

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

The Committee charges management with developing and implementing procedures to:

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

#### **COMPOSITION**

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

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

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

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

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

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

## **AUTHORITY**

The Committee has the authority to:

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

## **MEETINGS**

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

Meetings of the Committee may be called by:

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

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

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

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

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

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

## **RESPONSIBILITIES**

### **Administration:**

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

### **External Auditor:**

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

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

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

been granted authority to pre-approve non-audit engagements.

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

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

**Risk Management:**

12. The Committee annually reviews the adequacy and quality of the insurance coverage maintained by the Company.
13. The Committee reviews the principal risks of the business and ensures appropriate risk management techniques are in place. This will involve enquiry of management regarding how risks are managed as well as opinions from management regarding the degree of integrity of the risk mitigation strategies and accepted thresholds. The Committee shall review risk management policies as recommended by management.
14. The Committee reviews the governance of significant business process change and information technology projects.
15. The Committee reviews the Environmental Report, the Litigation Report and the Hedge Report, and reviews their appropriateness.
16. The Committee reviews the status of compliance with laws and regulations and the scope and status of systems designed to ensure compliance therewith, and receives reports from management, legal counsel and other third parties as determined by the Committee on such matters, as well as major legislative and regulatory developments which could impact the Company's contingent liabilities and risks.

**Financial Management and Reporting:**

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

**Internal Audit:**

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