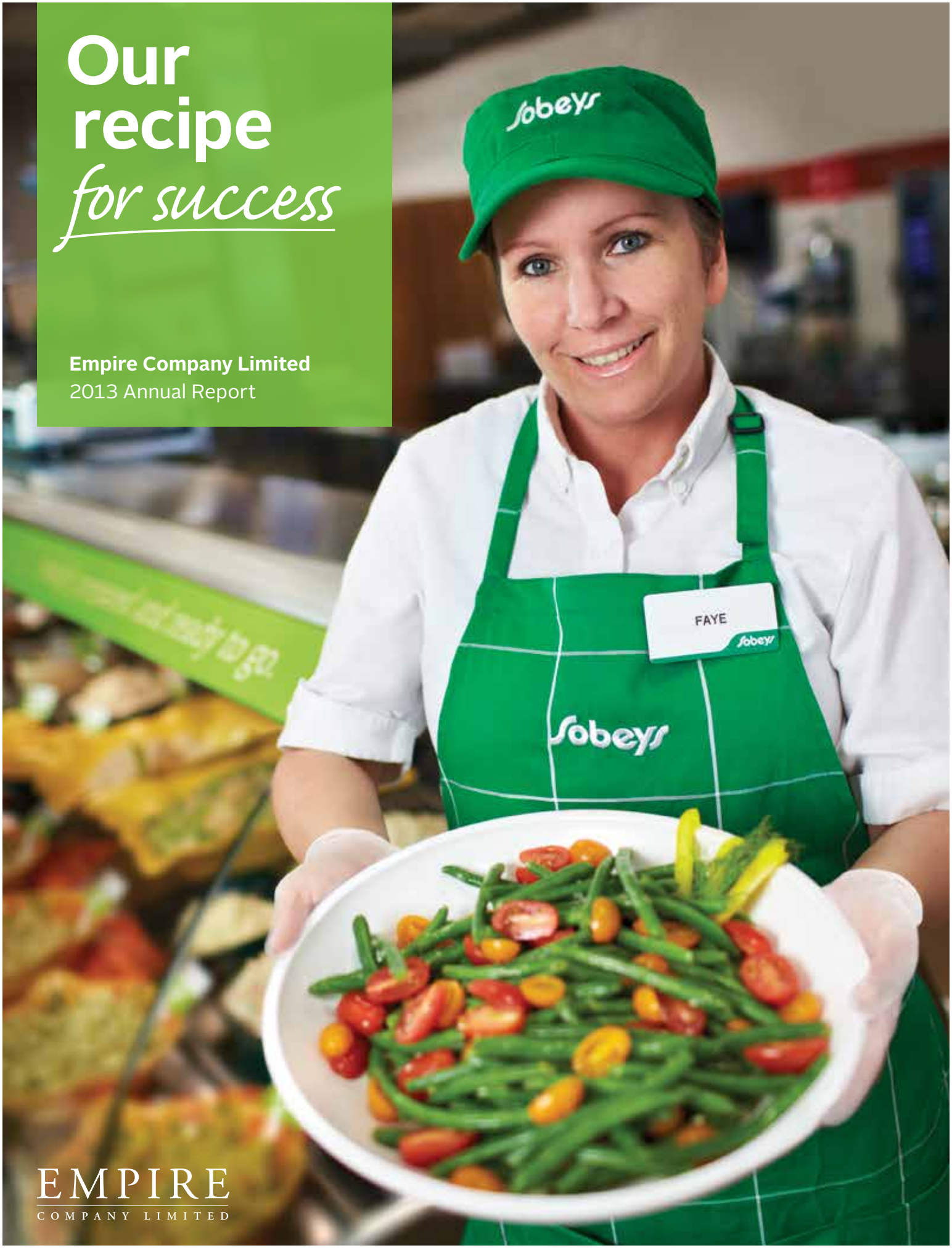
Our recipe *for success*

Empire Company Limited
2013 Annual Report



EMPIRE
COMPANY LIMITED

Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses include food retailing and related real estate. With over $17 billion in annual sales and approximately $7.1 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

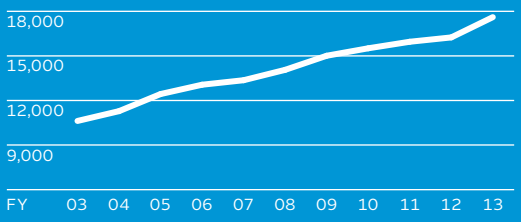
2013 Financial Highlights

($ in millions, except per share amounts)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012
Operations		
Sales	$ 17,612.7	$ 16,249.1
Operating income	584.8	534.3
Net earnings[1]	384.8	339.4
Adjusted net earnings[1][2]	367.3	322.7
Per Share Information		
Net earnings (fully diluted)[1]	$ 5.65	$ 4.99
Adjusted net earnings (fully diluted)[1][2]	5.39	4.74
Book value	54.84	49.98
Dividends per share ("DPS")	0.96	0.90

10-Year Sales CAGR[3]

5.2%

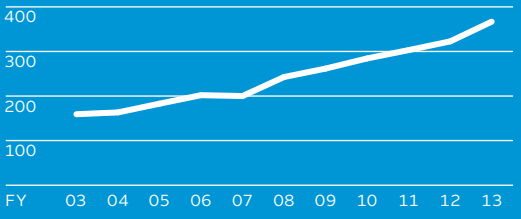
SALES ($ in millions)



10-Year Adjusted Net Earnings[1][2] CAGR[3]

8.7%

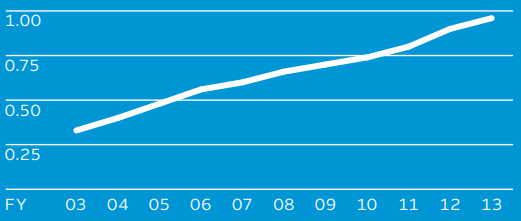
ADJUSTED NET EARNINGS[1][2] ($ in millions)



10-Year DPS CAGR[3]

11.3%

DIVIDENDS ($ per share)



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

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

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

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

Cover image: Faye Hynes, Sobeys First Lake, Sackville, Nova Scotia

Our recipe *for success*

Empire is committed to maximizing sustainable long-term shareholder value by supporting Sobeys' goal to be widely recognized as the best food retailer and workplace environment in Canada while also strengthening our related real estate investments. This year's report takes a look at the key ingredients of our strategy:

Building value *together*

Empire's strategic direction is to build long-term sustainable growth in sales and adjusted net earnings while prudently reinvesting the majority of our cash flow to grow and strengthen our food retailing and related real estate businesses.

To our Shareholders

Empire posted a record performance in fiscal 2013 amid continued intense competition in the food retailing industry. Consolidated sales reached $17.6 billion, an increase of 8.4 percent from the previous year. Excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations from Shell Canada in the fourth quarter of fiscal 2012, consolidated sales increased by 2.9 percent. Net earnings, net of non-controlling interest, were $384.8 million or $5.65 per diluted share compared to $339.4 million or $4.99 per diluted share in fiscal 2012, an increase of 13.4 percent. Adjusted net earnings, net of non-controlling interest, which excludes items which are considered not indicative of underlying business operating performance, were $367.3 million or $5.39 per diluted share compared to $322.7 million or $4.74 per diluted share in fiscal 2012, a 13.8 percent increase. These financial results were reflected in Empire's share price, which increased 19.0 percent during the fiscal year, capping a 20-year period in which shareholders have received a compound average annual total return on investment of 13.5 percent.

Our Recipe for Success

Empire's success has come from continuous investment and improvement in the businesses we know best – food retailing and related real estate. From the onset of our business, Frank H. Sobey began to capitalize on the strategic advantages and investment potential that came from owning the property associated with Sobeys' growing retail network and ever since, these two businesses have been the foundation of Empire's ability to create sustainable long-term value. Along the way, we have been able to generate solid returns by reinvesting our cash flow and excess capital to support the growth and development of our food retailing and related real estate operations, which now, in aggregate, represent 98.7 percent of consolidated sales and 94.4 percent of adjusted net earnings.

Food Retailing

Sobeys' sales increased 8.3 percent to $17.3 billion in fiscal 2013 driven by another year of positive same-store sales growth and the previously mentioned Shell acquisition. This is a solid performance given the intense level of promotional activity, virtual absence of price inflation in a food retailing market that continues to add new competitors and substantial new retail space. At the same time, the food retailing segment, through Sobeys, reported record operating income of $515.3 million, an 8.3 percent increase over last year. Sobeys' performance is a testament to the effectiveness of the food-focused growth strategy, strength and quality of our people, and significant investments made over the past six years in store and distribution infrastructure, business processes and systems, and sales and cost productivity initiatives. In the fast-paced food retailing business, however, little time is spent reflecting on past accomplishments.

Consolidated Adjusted Net Earnings[1]
($ in millions)

(1) Net of non-controlling interest.

"Sobeys' performance is a testament to the effectiveness of the food-focused growth strategy, strength and quality of our people, and significant investments made over the past six years."

Paul D. Sobey
President and CEO, Empire Company Limited

Marc Poulin (left)
Paul D. Sobey (right)

$367.3m

Empire posted record adjusted net earnings in fiscal 2013

Fiscal 2013 was a busy year for Sobeys with the completion of the transition to a format-based operating structure, implementation of the SAP enterprise-wide business platform at Thrifty Foods and in our Québec operations, and completion of an automated distribution centre in Terrebonne, Québec. As a result, Sobeys is positioned to harness its potential as a $17 billion organization as never before. Opportunities to enhance top and bottom line growth are abundant and include the integration of core business processes from coast to coast, the execution of nationally integrated commercial programs with our suppliers, and the benefits of Sobeys' leading customer insight capabilities in marketing and merchandising programs. Over the past few years, Sobeys' ability to consistently improve productivity has enabled the company to maintain its competitive price position while growing profitability. We expect that the important initiatives undertaken during the past year will allow this trend to continue.

Investments and Other Operations

Empire's investments and other operations consist primarily of our 42.8 percent equity accounted interest in Crombie REIT, our equity interests in residential real estate through Genstar and wholly-owned Empire Theatres. While all these businesses have been solid investments, Crombie REIT plays a particularly important role supporting the growth of core operations given its strategic relationship with Sobeys.

For Empire, the creation of Crombie REIT has provided access to capital that has accelerated the pace of Sobeys' expansion as a leading national retailer while enabling Sobeys to realize the value of its real estate assets. For Crombie REIT investors, the strategic relationship with Sobeys provides preferred access to some of the steadiest performing assets in commercial real estate – new, fully occupied grocery and drugstore-anchored community plazas and freestanding stores. During fiscal 2013, Crombie REIT purchased eight properties from Empire for $106.0 million.

Crombie REIT has also proved to be an excellent investment in its own right, setting new performance records in its most recent fiscal year ending December 31, 2012. Crombie REIT's operating income contribution to Empire reached $22.0 million, after adjusting for the impact of Crombie REIT's restatement in our fiscal 2013, compared to $19.7 million the previous year, with cash flow contribution of $33.4 million. At Empire's fiscal year-end, the value of our 42.8 percent equity accounted interest in Crombie REIT equalled $622.7 million as Crombie REIT's total market capitalization reached more than $1.4 billion.

Since the IPO of Crombie REIT in March 2006, Crombie REIT's net property income has increased at a 12.7 percent compound annual growth rate, while its market capitalization has increased at an average annual rate of 19.0 percent.

While Sobeys' development pipeline represents a unique competitive advantage for Crombie REIT, the company has also been steadily building its management capabilities and national presence in the broader commercial real estate market. During its fiscal year ending December 31, 2012, Crombie REIT acquired 26 grocery and drugstore-anchored plazas and freestanding store properties, 24 of which were from third parties, and all but one of which are located outside Atlantic Canada.

2013 Strategic Priorities

- **Execution of brand strategy for the full service format**
- **Achieve operational excellence through harmonization and optimization of process and technology**
- **Launch national employee engagement initiative**
- **Focus on enhancing category management and merchandising programs to deliver innovative food offerings**
- **Develop Sobeys' property pipeline, first offering to Crombie REIT to support its geographic diversification strategy**
- **Reinvest cash distribution from Crombie REIT to support growth in related real estate**

2013 Strategic Progress

- **Opened automated distribution centre in Terrebonne, Québec**
- **Ongoing training and development of employees, and investment in tools and processes**
- **Achieved nationwide SAP system implementation**
- **Completed FreshCo conversions, integrated Québec and Atlantic Canada Shell retail gas locations and launched Food for Fuel promotions**
- **Eight Empire properties sold to Crombie REIT for $106.0 million**
- **Invested an additional $38.3 million in Crombie REIT**

A Larger Platform for Growth

On June 12, 2013, subsequent to year-end, Empire and Sobeys announced a definitive agreement with Safeway Inc. to acquire substantially all of the assets of Canada Safeway Limited for a cash purchase price of $5.8 billion, subject to a working capital adjustment, plus the assumption of certain liabilities. This acquisition represents a unique and highly strategic opportunity to significantly increase Sobeys' scale, establish a leading presence in Western Canada (including the number one market position in fast-growing Alberta) and create meaningful synergies and earnings accretion. More specifically, the acquisition of Canada Safeway will create an organization with pro forma sales of approximately $24 billion and an immediately positive impact on adjusted net earnings per share. Management estimates annual synergies of approximately $200 million and expects the synergies to be achievable over a 36 month period.

Above all, Sobeys and Canada Safeway are an ideal fit with highly compatible strategic objectives and similar corporate cultures. Both companies are focused on fresh food and superior service, with strong management and an operating approach that depends on advanced customer insight and loyalty program capabilities and an emphasis on employee development, rigorous cost control and strong private label programs. The acquisition of Canada Safeway includes owned real estate valued at $1.8 billion.

Since the acquisition of The Oshawa Group in fiscal 1999, we have established a strong track record of successfully financing and integrating acquisitions to build shareholder value, achieving average annual adjusted net earnings per share growth of 14.8 percent per year over that time period.

Outlook

The year ahead promises to be another active one for Empire, but with 106 years in the business, we are used to that. We recognize that Canadian consumers remain cautious and that new retail space continues to be added to the market. We remain confident that we will continue to be successful as a result of our food-focused strategy and the substantial investments we've made in Sobeys. Our food-focused strategy and our passion for food, as well as the dedication and commitment of our employees has struck a chord with customers in each of Sobeys' retail formats, allowing us to deliver a more fulfilling shopping experience. Going forward, we remain committed to further enriching the shopping experience of our customers and investing in additional infrastructure and productivity improvements.

Our greatest competitive strength of course, is the quality of our people. We are fortunate to have truly exceptional management teams in our operations and they are working more closely than ever before to realize the full potential of Empire's food retailing and related real estate businesses. I would also like to thank Marcel Côté for his many years of valued contribution as he will not be standing for re-election to the Board of Directors. His dedication and advice have been invaluable over 15 years of outstanding service to both Sobeys and Empire. Finally, I would also like to extend my sincere appreciation to all of our employees, franchisees and affiliates for helping Empire achieve record performance in fiscal 2013.

PAUL D. SOBEY
President and CEO
Empire Company Limited
June 27, 2013

Empire *at a glance*

Food Retailing

Empire's food retailing business is carried out through its wholly-owned subsidiary Sobeys Inc., which serves the food shopping needs of Canadians with 1,569 corporately owned and franchised retail locations in more than 800 communities across every province in Canada.

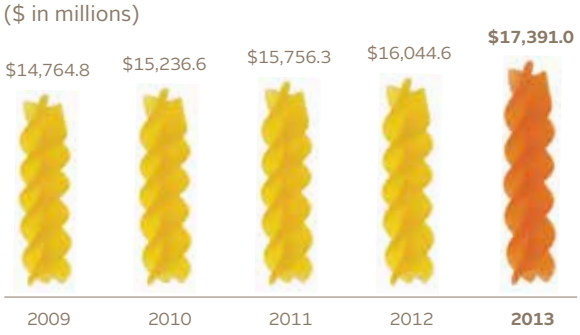
Sobeys' food-focused strategy is targeted at delivering the best food shopping experience to shoppers in the right-format, right-sized stores, supported by superior customer service. Sobeys remains focused on improving the product, service and merchandising offering within each format through continuous investment in retail store and distribution networks, innovation in marketing and merchandising programs, optimization of business processes, and the engagement of its people.

Investments and Other Operations

This segment consists primarily of our 42.8 percent equity accounted interest in Crombie REIT, our equity interests in residential real estate through Genstar and wholly-owned Empire Theatres.

The strategic relationship between Sobeys and Crombie REIT gives Empire the means to realize the value of Sobeys' real estate assets and accelerate the expansion of our food retailing business. In turn, Crombie REIT benefits from both preferred and steady access to new retail properties in Sobeys' property development pipeline while retaining the opportunity to create value through accretive third party acquisitions.

Food Retailing
Sales
($ in millions)



Investments and Other Operations
Sales
($ in millions)

Food Retailing
Operating Income
($ in millions)

Investments and Other Operations
Operating Income
($ in millions)

1,569
Total Stores*

Well Established, Differentiated Stores

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

Full Service
Sobeys
IGA *extra*
Thrifty Foods

Fresh Service
Sobeys Urban Fresh
IGA

Community Service
IGA
Foodland
Marché Bonichoix
Les Marchés Tradition

Discount Service
FreshCo

Convenience Service
Needs

To learn more about each of our retail banners, including where they are located, please visit http://www.sobeyscorporate.com/en/Our-Company/At-A-glance.aspx

*Includes the 236 retail gas locations and related convenience store operations acquired in fiscal 2012.

First Lake Place
Community Room
taste of Summer
Bulk Food
Bagels
English Muffins
Grain Bread
fresh
baked fresh
treats
flavour
soft and chewy
gourmet cookies

Our recipe *for success*

Continuous improvement is the price of admission in the Canadian food retailing business. After more than a decade of focused investment, Sobeys has established itself as a leading and dynamic national food retailer. This year's report examines the key ingredients of our strategy which continues to support Sobeys' goal to be *widely recognized as the best food retailer and workplace environment in Canada.*

Engaging *our customers*

Many things have changed in Empire's food retailing business over the past 106 years, but our success still depends on building strong and enduring relationships, one customer at a time. Doing that well requires a keen awareness of what customers are looking for and a culture that is aimed at sharing our knowledge, enthusiasm and passion for food every day.

My Offers, the first digital offers program in Canada, allows customers to load points promotions directly onto their club cards and redeem them in-store without paper printouts.

Sobeys goes to market with differentiated stores and retail banners that consistently deliver superior shopping experiences in their respective markets. Each format has resonated with the customers it serves. In our full service format, which includes the Sobeys, IGA *extra* and Thrifty Foods banners, and represents our primary engine for growth, we continue to roll out marketing and merchandising initiatives that are aimed at creating a more intimate and enduring relationship with our customers.

As always, the disciplined application of new technology is playing a key role in strengthening these relationships. While the traditional weekly flyer is still the industry's primary means of driving customer traffic, Sobeys continues to harness customer insight capabilities to create a new generation of more personalized marketing initiatives. Over the past two years, we've worked closely with Aimia, a global leader in loyalty program management, to embed Self Serve, a proprietary, best-in-class customer analytics tool, within our operations. This initiative provides an unprecedented ability to analyze the data generated by Club Sobeys, Club Thrifty Foods and AIR MILES® reward programs to enable better strategic business decisions around many aspects of our operations, from assortment to promotions.

This commitment to individual customer engagement can be seen in the launch of My Offers, the first digital offers program in Canada. It allows customers to load Club Sobeys/Club Thrifty Foods points promotions directly onto their club cards and redeem them in-store without paper printouts. My Offers provides members with exclusive offers customized to their shopping history, with promotions for regular purchases and the opportunity to earn bonus points on premium or complementary products.

The promise of individual customer engagement can also be seen on the mobile communications front in the latest of Sobeys' innovative meal solution initiatives. Moodie Foodie is a unique recipe inspiration app that helps busy customers to quickly choose, prepare and share delicious meals based on their individual mood and circumstances.

We are also working harder to engage our customers by improving the impact of our commercial programs within the four walls of our stores. Over the next year, we will build upon the success of our best commercial programs from each banner to feature compelling new products – and the related expertise needed to create total, value-added meal solutions – across our national store network.

Moodie Foodie, a unique recipe inspiration app, exemplifies the kind of one-to-one marketing initiatives that are helping to build stronger relationships with our customers.

Sobeys' Cheese Specialist Andy Shay, a member of the Guilde Internationale des Fromagers, uses his expertise to bring an enhanced cheese selection to our stores and train in-store cheese experts to help customers discover, appreciate and enjoy cheese.

Focusing on *food & innovation*

Sobeys' food-focused strategy is aimed at delighting our customers with the best food shopping experience in Canada through continuous improvement to our product, service and merchandising offerings. Our ability to deliver on that promise requires the kind of fresh thinking that comes from continuously viewing our business through the eyes of our customers.

Dedicated Wellbeing Counsellors such as Amanda Searle conduct regular information sessions and provide advice on all products available in our Wellbeing and Natural Source departments.

Sobeys' food-focused, fresh-driven offering has a natural appeal for Canada's increasingly health-conscious consumers. Inspired by our successful Rachelle-Béry health boutiques located in select IGA *extra* stores in Québec, we continued to build on our natural health and well-being position by introducing Natural Source departments to our Sobeys stores in Atlantic Canada. Designed as a dedicated boutique within the store, Natural Source serves as a one-stop convenient location for more than 2,000 grocery, dairy and frozen food items including more than 600 gluten-free products. All products offered in the Natural Source department must either be organic, have minimally processed natural ingredients or have a simple ingredient list. The region's largest Sobeys stores are also home to our innovative Wellbeing departments, which offer customers approximately 3,000 natural health, natural beauty, sports nutrition and environmentally friendly cleaning products. Each department is staffed by highly trained Wellbeing Counsellors who conduct regular information sessions on healthy living and provide advice on all products available in our Wellbeing and Natural Source departments. Nine Sobeys stores in Atlantic Canada currently feature Wellbeing departments and we have plans to expand the program during the year ahead.

Sobeys also continues to play a leadership role in our industry's efforts to support Health Canada's recommendation to reduce sodium levels in processed foods. Today, more than 80 percent of our private label products are compliant with 2016 sodium targets as outlined by Health Canada, with efforts well advanced on the balance of our portfolio.

A similar spirit of innovation can be seen at work in the continuous development of our private label program. For more than five years, we have benefited from our unique Sensory Taste Panel, which utilizes everyday Canadian consumers to ensure that our *Compliments* private label products reflect the evolving tastes and increasingly discriminating palates of our customers across the country. During the past year, we added profiling and preference mapping to the product testing process.

Using the expertise of our consumer panelists to describe and rate attributes of specific products, we are able to create a profile that helps us formulate products that are consistently best in class.

We are also finding new ways to grow Sobeys' business outside the four walls of our traditional food stores. The past year witnessed the introduction of a Food for Fuel promotion across our network of 191 Shell stations in Québec. Designed to drive additional traffic to our retail food stores and enhance customer loyalty, the program offers valuable discounts and other incentives with every purchase of fuel. Food for Fuel builds on the success of a similar and highly popular promotion in Atlantic Canada that rewards Sobeys shoppers with fuel discount coupons that can be redeemed for purchases at nearby Fast Fuel, Irving and Shell locations.

Our increasingly popular *Sensations by Compliments* and other private label products are developed with input from our consumer panelists.

Natural Source is a new in-store boutique in Sobeys' Atlantic Canada stores that features more than 2,000 natural health grocery, dairy and frozen food items in one convenient location.

Improving *our productivity*

Over the past five years, Sobeys has invested more than $2.3 billion in the expansion and modernization of store and distribution networks, the implementation of advanced, enterprise-wide business systems and processes, and the development and engagement of our people. Today, we are ready to reach progressively higher levels of productivity.

Simon St-Pierre, Operations Supervisor, demonstrates the efficiency of technology at our second automated distribution centre in Terrebonne, Québec. The completion of our SAP platform implementation is enabling the optimization of our national distribution network.

At Sobeys, we are committed to maintaining our competitive price position in each market we serve. Our ability to do this profitably has been made possible by consistently enhancing our customer offering and shopping experience while maintaining a balanced focus on cost and productivity initiatives. During fiscal 2013, we completed the rollout of our integrated SAP platform at Thrifty Foods and in our Québec operations. We are now able to exploit the standardization of our business processes and our advanced SAP-enabled productivity tools from coast to coast. These include: Workforce Management, which optimizes labour deployment based on historical shopping patterns; Fresh Item Management, which enables the outstanding quality and consistency of our fresh offerings; and Computer Assisted Ordering, which helps to optimize inventory levels in our stores.

The implementation of our SAP platform further enables us to improve the performance of our national distribution network. In November 2012, we opened our second automated distribution facility in Terrebonne, Québec. It features the latest generation of WITRON Integrated Logistics warehousing and picking technology that has improved service levels to stores and reduced distribution costs in our Ontario operations. The Terrebonne facility incorporates a number of technological advancements including the ability to pick single boxes of product, a distinct inventory management advantage in serving the convenience stores in our Québec operations.

The standardization of our business processes across the country also provides the foundation for important organizational changes that will drive our growth, productivity and people strategies going forward. Sobeys' former regional management structure was replaced with two business units, each of which

goes to market with a more focused, format-based approach. Both units are supported by newly standardized processes focused on reducing complexity, eliminating duplication and fully capitalizing on our scale as a national organization.

While these improvements have enhanced our ability to remain price competitive in each of the markets we serve, they also provide an important foundation for many of the sales productivity initiatives designed to enhance customer loyalty and drive Sobeys' positive same-store sales growth. The completion of an integrated, system-wide business platform offers abundant opportunities to create value by enabling stronger supplier relationships and the execution of more effective marketing and merchandising programs from coast to coast.

SAP productivity tools are enabling us to optimize labour deployment, better control inventory and improve the quality and consistency of our fresh offerings.

WITRON Integrated Logistics warehousing and picking technology has improved service levels to stores while reducing distribution costs.

Being the best *together*

Empire's most important competitive advantage is the quality of the people in our food retailing and related real estate businesses. The talented individuals in our stores, distribution centres and offices help create a high-performance culture that is the foundation of Sobeys' goal to become widely recognized as the best food retailer and workplace environment in Canada.

Being the best together takes more than a commitment to teamwork. It requires an open and cooperative environment that encourages all employees to take ownership of their career planning, to become fully engaged with our vision and make a positive impact on the success of the organization by satisfying more and more customers everyday. That's why we work hard to attract and retain exceptional people who share our goals and expectations and why we provide the skills and on-the-job training they need to learn and grow and succeed. We also ensure employees are supported with the opportunities and resources to advance their ambitions. The Sobeys & Empire Work Experience & Scholarship Program awards numerous scholarships each year to our student employees across Canada, including the Future Leader Awards, providing financial support and summer internship employment opportunities. In total, these scholarships currently support more than 80 employees with financial awards of more than $130,000.

Recognizing the contributions of employees and celebrating their achievements is equally important, and in that spirit, we are proud to profile several individuals who played an important role in Empire's success over the past year.

Now in its fifth year, Sobeys Inc.'s Chartered Accountant Training Office (CATO) program provides new graduates a chance to earn their CA designations while gaining experience throughout Empire's operations. Five students have successfully completed the program to date and three of them – Michelle Lamont, Alex Grant and Erika Bateman – now hold their CA designations and are working within the organization.

Marcia Peters, Future Leader Award recipient (above left)

Krista Payne, Director of Operations, GTA, Sobeys Full Service Format, recently named one of Canadian Grocer's Star Women in Grocery (left)

Matthew Malek, Manager, Talent Management and Organizational Development was recognized by Canadian Grocer with its 2012 Generation Next Award in the retail category. Generation “Next”, which stands for New Exciting Thinkers, recognizes up-and-coming leaders in the grocery and consumer packaged goods industries. These leaders, who must be under the age of 40, are celebrated for their innovation, leadership and commitment to the grocery industry. Matthew Zook, Director of Marketing, Ontario, was another of the eight 2012 Generation Next finalists.

Andy Shay, Sobeys’ Cheese Specialist, was inducted into Guilde Internationale des Fromagers, an invitation only society of professional cheese makers, dairy farmers, processors, refiners, traders and retailers who share a common passion and respect for the traditions of fine cheese. The society has 33 chapters worldwide with more than 5,000 members.

Krista Payne, Director of Operations, GTA, Sobeys Full Service Format in Ontario, was recently named one of Canadian Grocer’s Star Women in Grocery. Canadian Grocer launched the awards this year to recognize the important role women play in the grocery and consumer packaged goods industries in Canada. Krista was one of 16 women selected from across Canada to receive this award; all are proven leaders, innovative thinkers and have made significant contributions to the grocery retail and vendor communities.

Matthew Malek, Manager, Talent Management and Organizational Development (above left)
Matthew Zook, Director of Marketing, Ontario (above right)

Empire, Sobeys and Crombie REIT work closely together to facilitate the growth of our retail network and realize the full value of our real estate assets. Anchored by Sobeys, and home to Lawtons Drugs and other leading retailers, 139,000 sq. ft. Hemlock Square in Bedford, Nova Scotia exemplifies this strategic relationship (below)

A legacy of *value creation*

Empire's ability to create value comes from investment in core businesses we understand best – food retailing and related real estate. Focused on meeting the everyday needs of Canadian consumers, these businesses have helped Empire achieve steady performance over time.

Fiscal 2004

Sales
($ in millions)
$11,284.0

Adjusted Net Earnings
($ in millions)
$163.3

Book Value
($ per share)
$23.67

APRIL 2004
During the year Empire increases its ownership interest in Sobeys, from 62% to 65%.

AUGUST 2004
Sobeys introduces its exclusive *Compliments* private label offering.

JUNE 2005
Wajax converts to an income trust. Empire sells 2.875 million units, for a $25.6 million gain.

MARCH 2006
Crombie REIT completes its initial public offering. Empire sells 44 properties to Crombie REIT for $468.5 million and retains an initial 48.3% ownership interest.

AUGUST 2006
Sobeys acquires Achille de la Chevrotière Ltée, for $79.2 million.

JUNE 2007
Empire acquires the outstanding common shares of Sobeys that it did not own for $1.06 billion, achieving 100% ownership.

SEPTEMBER 2007
Sobeys acquires Thrifty Foods for $253.6 million.

APRIL 2008
Empire sells 61 properties for $428.5 million to Crombie REIT.

04 05 06 07 08

MARCH 2009
Empire issues 2.713 million Non-Voting Class A shares at $49.75 per share for total net proceeds to Empire of approximately $129 million. Proceeds from this equity issue, coupled with strong cash generation from Sobeys, reduce Empire's ratio of debt to capital to 32.7% from 39.8%.

09

MAY 2010
Sobeys enjoys another record year and receives credit rating upgrades from Standard & Poor's and DBRS, with both ratings at investment grade. Empire reduces its ratio of debt to capital to 29.3% from 32.7%.

10

OCTOBER 2010
Empire sells its investment in Wajax for net proceeds of $121.3 million.

MAY 2011
Sobeys completes the first year of the FreshCo discount banner in Ontario with a network of 57 stores in operation by fiscal year-end.

11

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

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

12

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

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

13

Supporting *our communities*

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

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

Thanks to donations from employees and customers in Ontario, Sobeys Store Operators Allen Foget and Pat Begbie, joined by General Walter Natynczyk and members of the Canadian Forces, load product for Operation Santa Claus, a program administered by the Department of National Defence that helps deliver holiday care packages to soldiers overseas. (left)

The 2012 Maritime Philanthropy Award for Outstanding Corporate Philanthropist was presented to Rob Sobey, President and CEO of Lawtons Drugs, by Rosalie Courage, President, RBR Development Associates Ltd. and a member of the Association of Fundraising Professionals - Nova Scotia Chapter. (below)

At the Helping Hands event on December 18, 2012, more than 600 employees from Sobeys' national and regional offices surprised the residents of Pictou County, Nova Scotia with hundreds of random acts of kindness throughout the community and spontaneous donations in support of many local charities. (above left)

Orange you glad you helped a kid? Thrifty Foods and Buck Brand Organic Oranges teamed up for three weeks to support 12 KidSport British Columbia chapters over the past winter. Thrifty Foods presented $80,874 to KidSport, enabling 323 kids to register for a full season of support. (left)

Sobeys is a proud sponsor of Healthy U – a government of Alberta public information and education campaign in support of healthy eating and active living. Sobeys employees distribute school snacks to Edmonton students. (below)

Protecting *the environment*

As a leading Canadian food retailer with operations from coast to coast, Sobeys occupies a pivotal point in the supply chain. We have a unique responsibility to not just conduct our own business more sustainably, but to promote solutions to advance the environmental interests of our customers, suppliers and the communities in which we operate.

Sobeys initiated a formal sustainability program in 2008 with a baseline analysis of its environmental footprint and a thorough examination of opportunities to effect positive change through closer cooperation with industry partners. As evidenced by our annual Sustainability Scorecard, we have continued to make solid progress.

- In September 2012, Supermarket News awarded Sobeys with the 2012 Sustainability Excellence Award in the store chain category.
- In October 2012, Efficiency Nova Scotia presented Sobeys with the Bright Star Award, which recognizes outstanding energy efficiency within a large business.
- In October 2012, BC Hydro awarded Jerry Wyshnowsky, Director of Energy and the Environment at Thrifty Foods with the Power Smart Excellence Award for his role as a Power Smart Energy Manager and for partnering with BC Hydro on 12 Power Smart employee engagement events over the past year. The Power Smart Excellence Awards program is a province-wide recognition program that recognizes BC Hydro's best-in-class energy-efficient business customers, retail partners and trade allies.

Sobeys is a sponsor of *Map Your Meal*, an integral component of Girl Guides of Canada's National Service Project "Operation Earth Action". This program challenges and empowers girls to become more environmentally aware and take action on the issues that make an impact in their communities and in their world. *Map Your Meal* is a hands-on activity that teaches girls the importance of knowing where their food comes from, and explores the environmental and health benefits of meal planning as well as buying and cooking with food grown and raised closer to home.

Girl Guides of Canada
Guides du Canada

2012 Scorecard

The following table summarizes Sobeys Inc.'s progress on key sustainability goals and indicators in fiscal 2012 compared to our 2008 baseline. The measurements are intensity based, except as otherwise noted, and direct operations boundaries include our corporate owned stores, distribution centres and fleets.
For more information, please visit www.sobeyssustainability.com

Direct Operations

Goal 1: Reduce Greenhouse Gas (GHG) emissions by 15% by December 31, 2013

PROGRESS	KEY ACTIONS	COLLABORATIVE INITIATIVES
Carbon Footprint • Retail stores (84% of total footprint): a 9.4% decrease in kgs CO_2e/ft^2 • Distribution centres (9.5% of total footprint): a 22% decrease in kgs CO_2e/100 cases shipped • Fleets (6.5% of total footprint): a 12% decrease in kgs CO_2e/100 kms travelled	• Used our web-based, carbon footprint and waste/waste diversion measurement system to measure progress towards our 2013 CO_2e emissions and waste reduction targets, engaged management and employees in emissions reduction activities, and identified improvement opportunities • Expanded the introduction of measures proven to be effective in reducing our energy and refrigerant leak CO_2e emissions • Outside the scope of our carbon footprint, Sobeys' corporate and third party fleets travelled 4.1 million backhaul kilometres (a 25.6% increase over fiscal 2011)	• Canadian supermarket industry shared carbon footprint annual measurement and reporting web tool, based on WBCSD/ WRI GHG Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)

The two dominant contributors to our stores' carbon footprint are: electricity consumption (68.2%) and refrigerant leaks (21.5%)

Goal 2: Reduce waste to landfill by 30% by December 31, 2013

Waste Diversion In fiscal 2012, 48% of all waste diverted from landfill: • Retail stores: a 9.8% decrease in kgs waste to landfill/ft^2 • Distribution centres: a 30.4% decrease in kgs waste to landfill per 100 cases shipped Significant quantities of materials sent for recycling and organic matter composting: • Cardboard: 39,000 metric tonnes • Organic waste: 13,500 metric tonnes • Plastics: 1,500 metric tonnes • Other materials (paper, metals, and oils and fats): 1,000 metric tones Over the past year, we have increased the volume of material diverted from landfill by more than 2,000 metric tonnes, or 3.9%	Since 2008, the annual volume sent to landfill has been reduced by 5,600 metric tonnes in retail stores and 2,000 metric tonnes in distribution centres. Initiatives included: • Installing on-site organic waste processing systems at 44 stores across Ontario, on average, reducing store waste to landfill volume by 34% • Expanding our produce organic waste diversion program in British Columbia to all stores resulting in a combined diversion of 2,300 metric tonnes of organic produce waste (24.5% year-over-year increase in these stores' organics diversion volume) • Piloting an expansion of this program in British Columbia to include other types of organic materials (e.g. baked goods, dairy, meat) • Piloting a plastics recycling program in five distribution centres in Atlantic Canada expected to result in diverting 60 metric tonnes of plastics from landfill annually • Implementing a variety of waste diversion programs at the three Ontario distribution centres and engaging employee participation enabling them to increase the volume of materials diverted from landfill by 31.5%, compared to last year	• Fees of $11.43 million for 2011 will be collected as our share of municipal bluebox stewardship program costs in Québec, Ontario and Manitoba • Partnered with waste management companies servicing our operations to identify new opportunities to further expand our waste diversion programs

Supply Chain

Sustainable Seafood Goal: By 2013 stop selling any species with significant issues unless an improvement plan is in place

PROGRESS	KEY ACTIONS	COLLABORATIVE INITIATIVES
Baseline data still in progress	• De-listed all species of sharks, skates, rays, orange roughy and bluefin tuna • Helped initiate British Columbia wild salmon fishery improvement plan; supported and in process of initiating several others • 71 *Compliments* private label products eco-labeled • Implemented decision support tool for seafood buyers to assess relative sustainability of products procured	• Sustainable Fisheries Partnership www.sustainablefish.org

Delivering *long-term value*

In fiscal 2013, Empire shares generated a total return of 21.0 percent compared to 8.1 percent for the S&P/TSX Composite Index and, subsequent to fiscal year-end, rewarded investors with 18 consecutive years of increasing dividends. Over the past 20 years, Empire shares have provided an annual average total return of 13.5 percent.

This performance has been made possible by our steadfast focus on food retailing and related real estate – businesses that serve the essential, everyday needs of Canadians. We have been at these businesses for many decades and with the benefit of significant family ownership, have pursued a growth strategy focused on long-term sustainable value creation rather than short-term financial performance. This approach can be seen in the careful investments behind Sobeys' growth into a leading national food retailer, the creation of Crombie REIT to facilitate Sobeys' expansion across the country and the development of an increasingly effective partnership between these two businesses.

As Paul Sobey mentioned in his letter, we recently announced one of our most important investments yet with the planned $5.8 billion purchase of Canada Safeway. This leading Western Canada grocer is an excellent strategic fit given its similar food-focused strategy, skilled management team, strong corporate culture, and complementary market position in the region's largest and fastest growing population centres. Over the past 15 years, the senior management teams at Empire and Sobeys have done a great job acquiring, financing and integrating several attractive businesses to support Sobeys' growth into a leading national food retailer. Accordingly, we are confident this most recent acquisition will make a strong contribution to Empire's ongoing record of value creation.

On behalf of the Company's shareholders, the Board plays an active role in establishing strategy and monitoring the performance of all of Empire's operations. A key responsibility is to ensure that appropriate training, development and succession planning policies and practices are in place. It is also our responsibility to understand the major risks that could impact

"With the benefit of significant family ownership, we have pursued a growth strategy focused on long-term sustainable value creation rather than short-term financial performance."

Robert P. Dexter
Chair, Empire Company Limited

the Company's performance. Empire has well-established enterprise risk management policies and procedures, as well as risk mitigation strategies in place throughout our operations and the Company's Chief Internal Auditor provides extensive reporting to the Audit Committee each quarter.

Going forward, the Board will continue to ensure our corporate governance practices reflect the highest possible standards. Our progress is guided by a capable group of seasoned Board members that includes Sobey family representatives and a majority of independent directors. This unique mix creates a healthy and challenging boardroom dynamic that serves the interests of all shareholders while allowing us to focus on the long-term growth and development of Empire's businesses.

In closing, I would like to extend the Board's heartfelt thanks to Marcel Côté who will be retiring from Empire's Board at this year's Annual General Meeting following 15 years of outstanding service to both Sobeys and Empire. I am also very pleased to welcome Cynthia Devine, Chief Financial Officer of Tim Hortons Inc., who joined the Board in January and Kevin Lynch, Vice Chair of BMO Financial Group, both of whom will be standing for election at the Annual General Meeting this September 2013. In addition, Bonnie Brooks, President of Hudson's Bay Company and Martine Turcotte, Vice Chair, Québec BCE Inc. and Bell Canada, who joined our Board in 2012, will also be standing for re-election in September 2013. These accomplished individuals add considerable retail and financial expertise to our Board.

Finally, as Chair, and on behalf of the entire Board, I would like to thank the thousands of people in Empire's operating companies, franchisees, affiliates, and the management teams at Empire and its direct and affiliated operations for delivering another year of strong performance. Thanks to their efforts, we have been able to keep delivering value to shareholders while strengthening our foundation for continued success.

ROBERT P. DEXTER
Chair
Empire Company Limited
June 27, 2013

The value of *good governance*

Empire Company Limited Board of Directors (As of June 27, 2013)

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

Bonnie Brooks
Toronto, Ontario
Director since 2012

Marcel Côté
Montréal, Québec
Director since 2007

Cynthia Devine
Toronto, Ontario
Director since 2013

David S. Ferguson
Atlanta, Georgia
Director since 2007

Edward C. Harsant
Woodbridge, Ontario
Director since 2003

David Leslie
Toronto, Ontario
Director since 2007

Marc Poulin
Montréal, Québec
Director since 2012

Mel Rhinelander
Toronto, Ontario
Director since 2007

Stephen J. Savidant
Calgary, Alberta
Director since 2004

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

Donald R. Sobey
Pictou County, Nova Scotia
Director since 1963

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

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

Karl R. Sobey
Halifax, Nova Scotia
Director since 2001

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

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

Martine Turcotte
Verdun, Québec
Director since 2012

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

Officers of Empire Company Limited (As of June 27, 2013)

Robert P. Dexter
Chair

Paul D. Sobey
President and
Chief Executive Officer

Paul V. Beesley
Executive Vice President
and Chief Financial Officer

Frank C. Sobey
Vice President,
Real Estate

Stewart H. Mahoney
Vice President, Treasury
and Investor Relations

Carol A. Campbell
Vice President,
Risk Management

John G. Morrow
Vice President
and Comptroller

Karin McCaskill
Corporate Secretary

Officers of Operating Companies (As of June 27, 2013)

SOBEYS INC.

Robert P. Dexter
Chair

Marc Poulin
President and
Chief Executive Officer

François Vimard
Executive Vice President

Jason Potter
President, Sobeys
Multi-Format Operations

Claude Tessier
President, Sobeys IGA
Operations

Paul A. Jewer
Chief Financial Officer

Simon Gagné
Chief Human Resources
Officer

Karin McCaskill
Senior Vice President,
General Counsel
and Secretary

L. Jane McDow
Assistant Secretary

ECL PROPERTIES LIMITED

Frank C. Sobey
Vice President

EMPIRE THEATRES LIMITED

Stuart G. Fraser
President and
Chief Executive Officer

Valerie Ryan
Chief Operating Officer

Paul W. Wigginton
Vice President,
Chief Financial Officer

Management's discussion and analysis

Table of Contents

Forward-Looking Information	**29**
Non-GAAP Financial Measures	**31**
Empire's Strategic Direction	**32**
Overview	**32**
Consolidated Operating Results	**34**
Management's Explanation of Consolidated Operating Results	**35**
Sales	**35**
EBITDA	**36**
Operating Income	**37**
Finance Costs	**37**
Income Taxes	**38**
Net Earnings	**38**
Adjusted Net Earnings	**38**
Fiscal 2013 Financial Performance by Segment	**39**
Food Retailing	**39**
Investments and Other Operations	**42**
Quarterly Results of Operations	**45**
Consolidated Financial Condition	**49**
Capital Structure and Key Financial Condition Measures	**49**
Shareholders' Equity	**49**
Liabilities	**50**
Financing of the Canada Safeway Proposed Acquisition	**51**
Financial Instruments	**51**
Liquidity and Capital Resources	**52**
Operations	**52**
Investment	**53**
Financing	**54**
Business Acquisitions	**54**
Guarantees and Commitments	**55**
Free Cash Flow	**57**
Accounting Standards and Policies	**58**
Accounting Standards and Policies Adopted During Fiscal 2013	**58**
Future Changes in Accounting Standards	**58**
Critical Accounting Estimates	**59**
Disclosure Controls and Procedures	**60**
Internal Control over Financial Reporting	**61**
Related Party Transactions	**61**
Subsequent Events	**62**
Employee Future Benefit Obligations	**63**
Designation for Eligible Dividends	**63**
Contingencies	**63**
Risk Management	**63**

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 52 weeks ended May 4, 2013 compared to the 52 weeks ended May 5, 2012. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's two business segments, as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

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

This discussion and analysis should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 4, 2013 compared to the 52 weeks ended May 5, 2012. The audited annual consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire, its subsidiaries and Special Purpose Entities ("SPEs"), which the Company is required to consolidate. The information contained in this MD&A is current to June 27, 2013, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

These forward-looking statements include the following items:

- The Company's expectation relating to timing and completion of the proposed Canada Safeway Limited ("Canada Safeway") acquisition which may be impacted by regulatory approval and other conditions in the acquisition agreement;
- The Company's expectation relating to its ability to complete any sale-leaseback transaction and other asset sales and the timing of such transactions which may be impacted by market conditions and the ability to negotiate acceptable terms with third parties;
- The Company's expectation relating to final financing breakdown, including the amount of bridge financing drawn and the timing of paying back any bridge financing drawn, which may be impacted by the timing of closing, any sale-leaseback transaction, other asset sales and cash flows;
- Anticipated benefits of the Canada Safeway proposed 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 relating to timing and completion of the proposed Empire Theatres sales which may be impacted by regulatory approval and other conditions in the sale agreements;
- The value of the Company's remaining equity interest and earn out relating to the Empire Theatres sale and its ability to realize on either may be impacted by market conditions and Landmark's ability to successfully operate the assets;
- Our expectation that the strength of Sobeys' relationship with Crombie REIT, combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value, which may be impacted by commercial real estate market conditions and the availability of mutually desirable properties for development and sale by Sobeys and for purchase by Crombie REIT;
- The Company's expectation that its operational and capital structure is sufficient to satisfy its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;

- The Company's belief that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- The Company's expectation that ongoing litigation matters and claims arising from the ordinary course of business will have no material impact on the Company;
- The Company's expectations that the adoption of certain accounting standards and policies adopted during fiscal 2013 are not expected to have a significant impact on the Company's financial statements;
- Sobeys Inc.'s ("Sobeys") expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives;
- Sobeys' expectations of continued sales growth in fiscal 2014, which could be impacted by changes in the competitive environment;
- Sobeys' expectations regarding the reduction in business costs related to the opening of the new distribution centre in Québec, which could be impacted by the number of positions eliminated at other distribution centres; and
- Sobeys' 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.

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

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information, and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs, or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as at June 27, 2013 and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

There are measures included in this MD&A that do not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of assessing financial performance. Empire's definition of the non-GAAP terms are as follows:

- Adjusted sales are sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012.
- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross profit is calculated as sales less cost of sales.
- Gross margin is gross profit divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT") is calculated as net earnings before non-controlling interest, finance costs (net of finance income) and income taxes.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as operating income plus depreciation and amortization of intangibles, which is reconciled to the operating income measure as set out in the following table.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Operating income	**$ 155.1**	$ 136.4	**$ 584.8**	$ 534.3
Depreciation	**79.6**	77.7	**314.8**	304.1
Amortization of intangibles	**12.3**	10.1	**44.5**	38.2
EBITDA	**$ 247.0**	$ 224.2	**$ 944.1**	$ 876.6

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income.
- Adjusted net earnings is net earnings excluding items which are considered not indicative of underlying business operating performance.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt.
- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures reported on the balance sheets as at May 4, 2013, May 5, 2012 and May 7, 2011, respectively.

($ in millions)	May 4, 2013	May 5, 2012	May 7, 2011
Bank indebtedness	$ 6.0	$ 4.4	$ –
Long-term debt due within one year	47.6	237.3	49.4
Liabilities relating to assets held for sale	–	–	12.7
Long-term debt	915.9	889.1	1,090.3
Funded debt	969.5	1,130.8	1,152.4
Less: cash and cash equivalents	455.2	510.2	615.9
Net funded debt	514.3	620.6	536.5
Total shareholders' equity, net of non-controlling interest	3,726.2	3,396.3	3,162.1
Net total capital	$ 4,240.5	$ 4,016.9	$ 3,698.6

($ in millions)	May 4, 2013	May 5, 2012	May 7, 2011
Funded debt	$ 969.5	$ 1,130.8	$ 1,152.4
Total shareholders' equity, net of non-controlling interest	3,726.2	3,396.3	3,162.1
Total capital	$ 4,695.7	$ 4,527.1	$ 4,314.5

EMPIRE'S STRATEGIC DIRECTION

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

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

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

Subsequent to fiscal year-end, Sobeys entered into an agreement with Safeway Inc. and its subsidiaries, pursuant to which Sobeys agreed to purchase substantially all of the assets of Canada Safeway. See "Subsequent Events".

OVERVIEW

Empire's key businesses include food retailing and related real estate. The Company's financial results are segmented into two separate operating segments: (1) Food Retailing and (2) Investments and Other Operations. With over $17 billion in annual sales and approximately $7.1 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

Food Retailing

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

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

During the year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 54 stores (fiscal 2012 – 324 stores). Fiscal 2012 included the March 15, 2012 acquisition of 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. The network acquired includes corporate owned and dealer operated locations and during fiscal 2013 Sobeys recorded sales of approximately $1.0 billion.

In fiscal 2013, 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.

Investments and Other Operations

Empire's investments and other operations segment consists of:

1. A 42.8 percent (40.8 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust investing in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties. Crombie REIT currently owns a portfolio of 176 commercial properties in nine provinces, comprising approximately 14.5 million square feet of gross leasable area;
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P., a 45.8 percent equity accounted interest in GDC Investments 7, L.P. and a 43.7 percent equity accounted interest in GDC Investments 8, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States; and
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"), which is the second largest movie exhibitor in Canada. As of May 4, 2013, Empire Theatres owned 50 locations representing 421 screens.

Fiscal 2013 Financial Highlights

- Sales of $17.61 billion, up $1,363.6 million or 8.4 percent. After adjusting for the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased $463.0 million or 2.9 percent.
- Sobeys' same-store sales increased 1.3 percent.
- Net earnings, net of non-controlling interest, of $384.8 million ($5.65 per diluted share), a $45.4 million or 13.4 percent increase from $339.4 million ($4.99 per diluted share) in fiscal 2012.
- Adjusted net earnings, net of non-controlling interest, of $367.3 million ($5.39 per diluted share), a $44.6 million or 13.8 percent increase from $322.7 million ($4.74 per diluted share) in fiscal 2012.
- Sobeys opened, acquired or relocated 45 corporate and franchised stores, expanded 2 stores, rebannered/redeveloped 7 stores and closed 37 stores.
- Free cash flow of $437.3 million versus $407.9 million last year.
- Funded debt to total capital of 20.6 percent, down 4.4 percentage points from 25.0 percent recorded at the end of last fiscal year.
- Annual dividend per Non-Voting Class A and Class B common share increased to $0.96 from $0.90 last year.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 52 weeks ended May 4, 2013 relative to the 52 weeks ended May 5, 2012 and the 53 weeks ended May 7, 2011.

($ in millions, except per share amounts)	52 Weeks Ended May 4, 2013	% of Sales	52 Weeks Ended May 5, 2012	% of Sales	53 Weeks Ended May 7, 2011	% of Sales
Sales	$ 17,612.7	100.00%	$ 16,249.1	100.00%	$ 15,956.8	100.00%
EBITDA[1][2]	944.1	5.36%	876.6	5.39%	863.0	5.41%
Adjusted EBITDA[1][3]	921.7	5.23%	856.2	5.27%	837.7	5.25%
Operating income[1][2]	584.8	3.32%	534.3	3.29%	525.7	3.29%
Net earnings, net of non-controlling interest	384.8	2.18%	339.4	2.09%	400.6	2.51%
Adjusted net earnings, net of non-controlling interest[1][3]	367.3	2.09%	322.7	1.99%	303.2	1.90%
Basic earnings per share						
Net earnings, net of non-controlling interest	$ 5.66		$ 4.99		$ 5.88	
Adjusted net earnings, net of non-controlling interest[1][2]	$ 5.41		$ 4.75		$ 4.45	
Basic weighted average number of shares outstanding (in millions)	67.9		67.9		68.1	
Diluted earnings per share						
Net earnings, net of non-controlling interest	$ 5.65		$ 4.99		$ 5.87	
Adjusted net earnings, net of non-controlling interest[1][2]	$ 5.39		$ 4.74		$ 4.45	
Diluted weighted average number of shares outstanding (in millions)	68.1		68.0		68.2	
Dividend per share	$ 0.96		$ 0.90		$ 0.80	

(1) See Non-GAAP Financial Measures on page 31.

(2) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual financial statements).

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

Outlook

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

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing and related real estate. In doing so, we remain committed to: (i) supporting Sobeys in its goal to be widely recognized as the best food retailer and workplace environment in Canada; (ii) the profitable growth of Sobeys' real estate development operations as it develops new properties that are congruent with growing Sobeys and which, upon completion, will be offered for sale to Crombie REIT; (iii) capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses; and (iv) the continued strengthening of our financial condition through the prudent management of working capital and free cash flow in each operating company.

Food Retailing

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

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2014 to further improve store productivity. These key customer driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

Investments and Other Operations

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

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

Shareholder Return

The Company delivered a total shareholder return of 21.0 percent in fiscal 2013 as shown in the table below. The compound annual return on the Company's shares over the past five years has averaged 13.5 percent and over the past ten years has averaged 12.7 percent. This compares to the compound annual return of the S&P/TSX Composite Index over the past five and ten years of 0.2 percent and 9.3 percent, respectively.

In fiscal 2013, the Company increased its dividend by 6.7 percent to $0.96 per share. This was the seventeenth consecutive year of dividend increases. On June 27, 2013, the Board approved a further dividend increase of 8.3 percent to $0.26 per share quarterly, which amounts to $1.04 per share on an annualized basis. Empire's dividends are declared quarterly at the discretion of the Board.

For the fiscal year ended:	**May 4, 2013**	May 5, 2012	May 7, 2011	May 1, 2010	May 2, 2009	5-Year CAGR[1]
Closing market price per share (TSX: EMP.A)	**$ 68.58**	$ 57.62	$ 54.14	$ 52.98	$ 49.00	11.8%
Dividend paid per share	**$ 0.96**	$ 0.90	$ 0.80	$ 0.74	$ 0.70	7.8%
Dividend yield on prior year closing price	**1.7%**	1.7%	1.5%	1.5%	1.8%	
Increase in closing share price	**19.0%**	6.4%	2.2%	8.1%	24.8%	
Total annual shareholder return[2]	**21.0%**	8.1%	3.7%	9.9%	26.8%	13.5%

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

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

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 52 weeks ended May 4, 2013 compared to the 52 weeks ended May 5, 2012.

The financial performance of each of the Company's segments (food retailing and investments and other operations) is discussed in detail in the section entitled "Fiscal 2013 Financial Performance by Segment" in this MD&A.

Sales

Consolidated sales for fiscal 2013 were $17.61 billion compared to $16.25 billion in fiscal 2012, an increase of $1,363.6 million or 8.4 percent. During this period, sales from the food retailing segment increased $1,346.4 million or 8.4 percent.

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

($ in millions)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012	($) Change	(%) Change
Food retailing segment				
Sobeys' reported sales	**$ 17,345.8**	$ 16,021.9	$ 1,323.9	8.3%
Reclassification of lease revenue from owned property recorded by Sobeys	**56.9**	33.6		
	17,402.7	16,055.5	1,347.2	8.4%
Elimination of inter-segment	**(11.7)**	(10.9)		
Empire's food retailing segmented sales	**17,391.0**	16,044.6	1,346.4	8.4%
Investments & other operations segment				
Recorded sales	**221.7**	204.6	17.1	8.4%
Elimination of inter-segment	**–**	(0.1)		
Empire's investments & other operations segmented sales	**221.7**	204.5	17.2	8.4%
Empire consolidated sales	**$ 17,612.7**	$ 16,249.1	$ 1,363.6	8.4%

For the 52 weeks ended May 4, 2013, Sobeys reported sales of $17.35 billion, an increase of $1,323.9 million or 8.3 percent from the $16.02 billion reported last year. Sobeys' same-store sales increased 1.3 percent in fiscal 2013.

The growth in Sobeys' reported sales in fiscal 2013 was a direct result of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 and Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

The following table shows a reconciliation of sales reported by Sobeys for the 52 weeks ended May 4, 2013 compared to the prior year. Excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, Sobeys' reported sales increased $423.3 million or 2.7 percent for the 52 weeks ended May 4, 2013.

($ in millions)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012	($) Change	(%) Change
Sales (reported by Sobeys)	**$ 17,345.8**	$ 16,021.9	$ 1,323.9	8.3%
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations	**(1,031.6)**	(131.0)	(900.6)	
Adjusted sales[1]	**$ 16,314.2**	$ 15,890.9	$ 423.3	2.7%

(1) See Non-GAAP Financial Measures on page 31.

Investments and other operations recorded sales of $221.7 million in fiscal 2013 compared to $204.5 million last year.

Please refer to the section entitled "Fiscal 2013 Financial Performance by Segment" for an explanation of the change in sales by segment.

EBITDA

Consolidated EBITDA for the 52 weeks ended May 4, 2013 increased $67.5 million or 7.7 percent to $944.1 million from $876.6 million in fiscal 2012. This increase primarily relates to increased sales, in particular fuel sales, and the corresponding increase in gross profit for the 52 weeks ended May 4, 2013 compared to the same period in the prior year. During this period, EBITDA margin decreased slightly to 5.36 percent from 5.39 percent in the prior year. The decrease in EBITDA margin is a result of lower margins experienced on fuel sales at Sobeys. Adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for fiscal 2013 was $921.7 million compared to $856.2 million last year, an increase of $65.5 million or 7.7 percent.

($ in millions)	52 Weeks Ended May 4, 2013	May 5, 2012
EBITDA[1] (consolidated)	$ 944.1	$ 876.6
Adjustments:		
Sobeys' organizational realignment costs	9.1	9.2
One-time charge from equity accounted investments[2]	8.3	–
Transaction costs for Canada Safeway proposed acquisition	5.0	–
Sobeys Québec distribution network restructuring	2.4	3.0
Dilution gains[3]	(18.2)	(10.4)
Gain on disposal of assets	(29.0)	(22.2)
	(22.4)	(20.4)
Adjusted EBITDA[1]	$ 921.7	$ 856.2

(1) See Non-GAAP Financial Measures on page 31.

(2) Reflects a decrease in equity earnings from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(3) Includes an increase in previously recorded dilution gains as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

Please refer to the section entitled "Fiscal 2013 Financial Performance by Segment" for an explanation of the change in EBITDA for each segment.

Operating Income

For the 52 weeks ended May 4, 2013, Empire recorded operating income of $584.8 million, an increase of $50.5 million or 9.5 percent from the $534.3 million recorded for the 52 weeks ended May 5, 2012.

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

- Sobeys' operating income contribution to Empire in fiscal 2013 totalled $515.3 million, an increase of $39.5 million or 8.3 percent from the $475.8 million recorded last year.
- Investments and other operations contributed operating income of $69.5 million in fiscal 2013 compared to $58.5 million in fiscal 2012, an increase of $11.0 million or 18.8 percent.
  - Equity accounted earnings generated by Crombie REIT during the year were $13.7 million compared to $19.7 million in the prior year, a decrease of $6.0 million.
  - Real estate partnerships (Genstar) contributed operating income of $29.6 million, a decrease of $0.4 million from the $30.0 million recorded last year.
  - Other operations (net of corporate expenses) contributed operating income of $26.2 million compared to $8.8 million in fiscal 2012, an increase of $17.4 million.

Please refer to the section entitled "Fiscal 2013 Financial Performance by Segment" for an explanation of the change in operating income for each segment.

Finance Costs

Finance costs, net of finance income, for the 52 weeks ended May 4, 2013 were $50.8 million, a decrease of $9.1 million or 15.2 percent from the $59.9 million recorded last year. This decrease is primarily the result of a decrease in interest expense of $8.1 million and a decrease in net pension finance costs of $1.9 million, partially offset by an increase in fair value losses on forward contracts of $0.8 million. The decrease in interest expense of $8.1 million is due to lower consolidated funded debt levels which were partially associated with the repayment of Sobeys' $200.0 million non-revolving term credit facility on July 23, 2012. EBITDA to interest expense improved to 17.8 times at the end of fiscal 2013 from 14.4 times at the end of the prior fiscal year.

Consolidated funded debt was $969.5 million at May 4, 2013 compared to $1,130.8 million at May 5, 2012, a decrease of $161.3 million or 14.3 percent. The decrease in consolidated funded debt from the prior year was primarily due to a $210.4 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of $49.1 million. Please refer to the "Liabilities" sub-section under the "Consolidated Financial Condition" section of this MD&A for further details on consolidated funded debt.

Income Taxes

The Company's effective income tax rate for fiscal 2013 was 26.2 percent compared to 25.8 percent reported in fiscal 2012. The increase experienced in the effective income tax rate for the 52 weeks ended May 4, 2013 is primarily due to the nature of capital items realized and provincial tax rate changes, offset with a previously enacted decrease in the federal statutory rate.

Net Earnings

Consolidated net earnings, net of non-controlling interest, for the 52 weeks ended May 4, 2013 equalled $384.8 million ($5.65 per diluted share) compared to $339.4 million ($4.99 per diluted share) in fiscal 2012. The increase of $45.4 million or 13.4 percent is due to higher operating income and lower finance costs, net of finance income, partially offset by higher income taxes, as mentioned.

The following table presents Empire's segmented net earnings, net of non-controlling interest, for the 52 weeks ended May 4, 2013 compared to the 52 weeks ended May 5, 2012.

	52 Weeks Ended		($)	(%)
($ in millions, except per share amounts, net of tax)	**May 4, 2013**	May 5, 2012	Change	Change
Food retailing	**$ 339.9**	$ 304.1	$ 35.8	11.8%
Investments and other operations	**44.9**	35.3	9.6	27.2%
Consolidated	**$ 384.8**	$ 339.4	$ 45.4	13.4%
EPS (fully diluted)	**$ 5.65**	$ 4.99	$ 0.66	13.2%

Adjusted Net Earnings

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

	52 Weeks Ended	
($ in millions, except per share amounts, net of tax)	**May 4, 2013**	May 5, 2012
Net earnings, net of non-controlling interest	**$ 384.8**	$ 339.4
Adjustments:		
Sobeys' organizational realignment costs	**6.7**	6.4
One-time charge from equity accounted investments[1]	**5.9**	–
Transaction costs for Canada Safeway proposed acquisition	**4.0**	–
Sobeys Québec distribution network restructuring	**1.8**	2.1
Dilution gains[2]	**(13.0)**	(7.3)
Gain on disposal of assets	**(22.9)**	(17.9)
	(17.5)	(16.7)
Adjusted net earnings, net of non-controlling interest[3]	**$ 367.3**	$ 322.7
Adjusted net earnings, net of non-controlling interest, by segment:		
Food retailing	**$ 331.0**	$ 294.6
Investments and other operations	**36.3**	28.1
Adjusted net earnings, net of non-controlling interest[3]	**$ 367.3**	$ 322.7
Adjusted EPS (fully diluted)	**$ 5.39**	$ 4.74

(1) Reflects a decrease in equity earnings, net of tax, from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(2) Includes an increase in previously recorded dilution gains, net of tax, as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

(3) See Non-GAAP Financial Measures on page 31.

For the 52 weeks ended May 4, 2013, after factoring in the impact of the above-noted items, Empire recorded adjusted net earnings, net of non-controlling interest, of $367.3 million ($5.39 per diluted share) compared to $322.7 million ($4.74 per diluted share) in fiscal 2012.

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Fiscal 2013 Financial Performance by Segment".

FISCAL 2013 FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

Highlights

- Sobeys achieved fiscal 2013 sales growth of $1,323.9 million or 8.3 percent to reach $17.35 billion and same-store sales growth of 1.3 percent. After adjusting for the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, sales growth was $423.3 million or 2.7 percent.
- Free cash flow of $317.6 million versus $322.4 million in fiscal 2012.
- Total capital expenditures equalled $508.1 million in fiscal 2013 versus $579.9 million last year.
- Opened, acquired or relocated 45 corporate and franchised stores, expanded 2 stores, rebannered/redeveloped 7 stores and closed 37 stores.

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

($ in millions)	**52 Weeks Ended May 4, 2013**	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Sales growth	**8.3%**	1.8%	3.4%
Same-store sales growth[1]	**1.3%**	1.4%	0.2%
Return on equity[1]	**12.9%**	12.9%	13.9%
Funded debt to total capital[1]	**20.9%**	27.2%	29.4%
Funded debt to EBITDA[1]	**0.9x**	1.2x	1.2x
Property, equipment and investment property purchases[2]	**$ 508**	$ 563	$ 521

(1) See Non-GAAP Financial Measures on page 31.

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

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

	52 Weeks Ended[1]		($)	(%)
($ in millions)	**May 4, 2013**	May 5, 2012	Change	Change
Sales	**$ 17,391.0**	$ 16,044.6	$ 1,346.4	8.4%
EBITDA[2]	**859.5**	801.8	57.7	7.2%
Adjusted EBITDA[2][3]	**848.9**	791.6	57.3	7.2%
Operating income	**515.3**	475.8	39.5	8.3%
Adjusted operating income[2][3]	**504.7**	465.6	39.1	8.4%
Net earnings, net of non-controlling interest	**339.9**	304.1	35.8	11.8%
Adjusted net earnings, net of non-controlling interest[2][3]	**331.0**	294.6	36.4	12.4%

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

(2) See Non-GAAP Financial Measures on page 31.

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

Sales

Empire's food retailing segment achieved sales of $17.39 billion in fiscal 2013, an increase of $1,346.4 million or 8.4 percent over fiscal 2012. During the fiscal year, same-store sales increased by 1.3 percent. Excluding the impact of sales relating to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, the food retailing segment realized a sales increase of $445.8 million or 2.8 percent. In addition to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, the growth in Sobeys' reported sales in fiscal 2013 was a direct result of Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

Sobeys expects sales growth to continue in fiscal 2014 as a result of continued capital investment in its retail store network, and offering, merchandising, pricing and operational execution improvements across the country.

Sobeys' total store square footage increased by 2.0 percent in fiscal 2013 as a result of the opening, acquiring or relocating of 45 stores and the expansion of 2 stores. There were 7 stores rebannered or redeveloped and 37 stores closed in fiscal 2013.

Business Process and Information System Transformation and Rationalization Costs

During fiscal 2013, Sobeys continued to make progress in 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 the fiscal year, Sobeys completed an information systems implementation at Thrifty Foods which resulted in streamlined business processes for those stores.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010 and was completed in the third quarter of fiscal 2013. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 52 weeks ended May 4, 2013, $8.6 million of pre-tax costs were incurred related to these initiatives (fiscal 2012 – $13.2 million).

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility commenced operations during the third quarter of fiscal 2013 and will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving service to its store network and customers. For the 52 weeks ended May 4, 2013, Sobeys recorded pre-tax severance costs associated with the distribution network in Québec of $2.4 million (fiscal 2012 – $3.0 million).

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. Total pre-tax costs associated with this initiative for the 52 weeks ended May 4, 2013 were $9.1 million (fiscal 2012 – $9.2 million). These expenses relate mainly to consulting and severance costs of $2.4 million and $6.7 million, respectively (fiscal 2012 – $6.7 million and $2.5 million).

Gross Profit

Sobeys recorded gross profit for the 52 weeks ended May 4, 2013 of $4,013.1 million, an increase of $138.9 million or 3.6 percent compared to $3,874.2 million in fiscal 2012. For the year ended May 4, 2013, gross margin decreased 104 basis points to 23.14 percent compared to 24.18 percent last year. The decrease in gross margin is primarily a result of lower margins experienced on fuel sales. Excluding the impact of lower margin fuel sales, gross margin was 24.36 percent for the 52 weeks ended May 4, 2013 compared to 24.53 percent for the same period last year.

EBITDA

For the 52 weeks ended May 4, 2013, Sobeys contributed EBITDA to Empire of $859.5 million (4.94 percent of sales) compared to $801.8 million (5.00 percent of sales) last year, an increase of $57.7 million or 7.2 percent. This increase relates to increased sales, in particular fuel sales, and the corresponding increase in gross profit for the 52 weeks ended May 4, 2013 compared to the same period in the prior year. The 6 basis point decline in EBITDA margin is primarily due to lower margins experienced on fuel sales. Adjusting for items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys' adjusted EBITDA contribution to Empire for the 52 weeks ended May 4, 2013 was $848.9 million (4.88 percent of sales) compared to $791.6 million (4.93 percent of sales) last year, an increase of $57.3 million or 7.2 percent.

	52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012
EBITDA[1] (contributed by Sobeys)	**$ 859.5**	$ 801.8
Adjustments:		
Sobeys' organizational realignment costs	**9.1**	9.2
Transaction costs for Canada Safeway proposed acquisition	**5.0**	-
Sobeys Québec distribution network restructuring	**2.4**	3.0
Dilution gains	**(0.7)**	(0.4)
Gain on disposal of assets	**(26.4)**	(22.0)
	(10.6)	(10.2)
Adjusted EBITDA[1]	**$ 848.9**	$ 791.6

(1) See Non-GAAP Financial Measures on page 31.

Operating Income

Sobeys' operating income contribution to Empire for the 52 weeks ended May 4, 2013 was $515.3 million (2.96 percent of sales) compared to $475.8 million (2.97 percent of sales) last year, an increase of $39.5 million or 8.3 percent. Adjusting for items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys contributed adjusted operating income to Empire in the 52 weeks ended May 4, 2013 of $504.7 million (2.90 percent of sales) compared to $465.6 million (2.90 percent of sales) last year, an increase of $39.1 million or 8.4 percent.

	52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012
Operating income[1] (contributed by Sobeys)	**$ 515.3**	$ 475.8
Adjustments:		
Sobeys' organizational realignment costs	**9.1**	9.2
Transaction costs for Canada Safeway proposed acquisition	**5.0**	–
Sobeys Québec distribution network restructuring	**2.4**	3.0
Dilution gains	**(0.7)**	(0.4)
Gain on disposal of assets	**(26.4)**	(22.0)
	(10.6)	(10.2)
Adjusted operating income[1]	**$ 504.7**	$ 465.6

(1) See Non-GAAP Financial Measures on page 31.

Combined with the items noted above, Sobeys continues to focus on disciplined cost management initiatives, supply chain and retail productivity improvements, the migration of best practices, and planned capital investments to drive sales and improve margins over time.

Net Earnings

Sobeys contributed net earnings, net of non-controlling interest, of $339.9 million to Empire for the 52 weeks ended May 4, 2013, an increase of $35.8 million or 11.8 percent over the $304.1 million recorded in fiscal 2012. The increase was primarily a result of higher operating income and lower finance costs, net of finance income, partially offset by higher income taxes.

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of non-controlling interest, of $331.0 million to Empire for the 52 weeks ended May 4, 2013 compared to $294.6 million last year, an increase of $36.4 million or 12.4 percent.

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

	52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012
Net earnings, net of non-controlling interest (contributed by Sobeys)	**$ 339.9**	$ 304.1
Adjustments:		
Sobeys' organizational realignment costs	**6.7**	6.4
Transaction costs for Canada Safeway proposed acquisition	**4.0**	–
Sobeys Québec distribution network restructuring	**1.8**	2.1
Dilution gains	**(0.5)**	(0.3)
Gain on disposal of assets	**(20.9)**	(17.7)
	(8.9)	(9.5)
Adjusted net earnings, net of non-controlling interest[1]	**$ 331.0**	$ 294.6

(1) See Non-GAAP Financial Measures on page 31.

Investments and Other Operations

Highlights

- Sales of $221.7 million, up $17.2 million or 8.4 percent.
- Operating income of $69.5 million, up $11.0 million or 18.8 percent.
- Acquired an additional $24.5 million in Crombie REIT Class B units.
- Crombie REIT's market capitalization surpassed $1.4 billion with Empire's investment carrying a fair value of $622.7 million.
- Equity earnings from Crombie REIT, before restatement as outlined in the table for EBITDA, of $22.0 million versus $19.7 million last year.
- Equity earnings from real estate partnerships (Genstar) of $29.6 million compared to $30.0 million last year.
- Improved operating performance from Empire Theatres.

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

	52 Weeks Ended		($)
($ in millions)	**May 4, 2013**	May 5, 2012	Change
Sales	**$ 221.7**	$ 204.5	$ 17.2
EBITDA[1]	**84.6**	74.8	9.8
Adjusted EBITDA[1][2]	**72.8**	64.6	8.2
Operating income[1]			
Crombie REIT[3]	**13.7**	19.7	(6.0)
Real estate partnerships[4]	**29.6**	30.0	(0.4)
Other operations, net of corporate expenses[5]	**26.2**	8.8	17.4
	69.5	58.5	11.0
Net earnings	**44.9**	35.3	9.6
Adjusted net earnings[2]	**36.3**	28.1	8.2

(1) See Non-GAAP Financial Measures on page 31.

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

(3) 42.8 percent equity accounted interest in Crombie REIT (May 5, 2012 – 44.3 percent interest). Crombie REIT's operating income contribution for fiscal 2013 was impacted by a one-time charge of $8.3 million (fiscal 2012 – $nil); this charge accounts for the fair value of convertible debentures for the current year and the restatement of prior years.

(4) Interests in Genstar.

(5) Other operations, net of corporate expenses, for the 52 weeks ended May 4, 2013 includes dilution gains of $17.5 million (fiscal 2012 – $10.0 million), which includes an increase in previously recorded dilution gains of $6.1 million (fiscal 2012 – $nil) as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years, and an impairment charge related to an investment of $nil (fiscal 2012 – $1.1 million).

On November 7, 2012, the Company sold its petroleum and natural gas properties for $17.3 million before costs. The purchase price approximated the carrying value of these assets, therefore no gain or loss was recorded after the completion of post-closing adjustments.

At May 4, 2013, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

($ in millions)	May 4, 2013 Fair Value	May 4, 2013 Carrying Value	May 4, 2013 Unrealized Gain	May 5, 2012 Fair Value	May 5, 2012 Carrying Value	May 5, 2012 Unrealized Gain
Investment in Crombie REIT	$ 622.7	$ 195.2	$ 427.5	$ 520.7	$ 167.4	$ 353.3
Investment in Genstar[1]	203.2	203.2	–	138.8	138.8	–
Canadian Digital Cinema Partnership[1]	9.2	9.2	–	7.2	7.2	–
Other investments[1][2]	39.5	39.5	–	13.0	13.0	–
	$ 874.6	$ 447.1	$ 427.5	$ 679.7	$ 326.4	$ 353.3

(1) Assumes fair value equals carrying value.

(2) Includes an investment in Crombie REIT Series D convertible unsecured subordinated debentures (the "Debentures") with a market value of $24.8 million (May 5, 2012 – $nil). May 5, 2012 includes an investment in Crombie REIT Series B convertible unsecured subordinated debentures with a market value of $12.8 million. During the first quarter of fiscal 2013, the Company purchased $24.0 million of Debentures, which as at May 4, 2013, had a market value of $24.8 million. On September 25, 2012, the Company converted Crombie REIT Series B convertible unsecured subordinated debentures with a face value of $10.0 million into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of $13.8 million, resulting in a pre-tax gain of $3.8 million.

Sales

Investments and other operations' sales equalled $221.7 million for the 52 weeks ended May 4, 2013 versus $204.5 million in fiscal 2012, a $17.2 million or 8.4 percent increase. The increase in sales was primarily driven by an increase in sales at Empire Theatres, partially offset by a decrease in sales by the Company's other operations.

EBITDA

For the 52 weeks ended May 4, 2013, investments and other operations contributed EBITDA to Empire of $84.6 million compared to $74.8 million last year, an increase of $9.8 million or 13.1 percent. Adjusting for items which are considered not indicative of underlying business operating performance, as presented in the table below, investments and other operations' adjusted EBITDA for fiscal 2013 was $72.8 million compared to $64.6 million last year, an increase of $8.2 million or 12.7 percent.

($ in millions)	52 Weeks Ended May 4, 2013	52 Weeks Ended May 5, 2012
EBITDA[1] (investments and other operations)	$ 84.6	$ 74.8
Adjustments:		
One-time charge from equity accounted investments[2]	8.3	–
Gain on disposal of assets	(2.6)	(0.2)
Dilution gains[3]	(17.5)	(10.0)
	(11.8)	(10.2)
Adjusted EBITDA[1]	$ 72.8	$ 64.6

(1) See Non-GAAP Financial Measures on page 31.

(2) Reflects a decrease in equity earnings from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(3) Includes an increase in previously recorded dilution gains as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

Operating Income

Investments and other operations contributed operating income of $69.5 million in the 52 weeks ended May 4, 2013 versus $58.5 million in fiscal 2012, an increase of $11.0 million or 18.8 percent. The contributors to operating income in the 52 weeks ended May 4, 2013 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $13.7 million in the 52 weeks ended May 4, 2013, down $6.0 million from the $19.7 million recorded in the prior year. This decrease was driven primarily by a one-time charge of $8.3 million (fiscal 2012 – $nil) relating to Crombie REIT's restated earnings, partially offset by increased property revenue and the resulting higher property net operating income. During the preparation of Crombie REIT's fourth quarter fiscal 2012 financial results, it was determined that the conversion feature and redemption option attached to its convertible debentures represented a financial liability requiring fair value measurement over each reporting period, with any adjustment to fair value being recognized through a decrease in net assets attributable to Unitholders. This resulted in Crombie REIT's restatement of financial results for prior years.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) was $29.6 million in the 52 weeks ended May 4, 2013, a decrease of $0.4 million compared to $30.0 million recorded in the prior year.
- Other operations, net of corporate expenses, contributed operating income of $26.2 million, up $17.4 million from the $8.8 million recorded in the 52 weeks ended May 5, 2012. Dilution gains of $17.5 million recorded in the 52 weeks ended May 4, 2013 (fiscal 2012 – $10.0 million) include an adjustment of $6.1 million (fiscal 2012 – $nil) to previously recorded dilution gains as a result of Crombie REIT's restated net assets attributable to Unitholders, as mentioned. Fiscal 2012 included an impairment charge of $1.1 million related to an investment.

Adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, resulted in an adjusted operating income contribution for the 52 weeks ended May 4, 2013 of $57.7 million compared to $48.3 million in fiscal 2012, an increase of $9.4 million or 19.5 percent.

Net Earnings

During the 52 weeks ended May 4, 2013, investments and other operations contributed $44.9 million to Empire's consolidated net earnings compared to a contribution of $35.3 million in fiscal 2012. The $9.6 million increase is primarily attributed to higher operating income, as discussed, partially offset by higher finance costs, net of finance income, and higher income taxes.

Adjusted Net Earnings

Investments and other operations contributed adjusted net earnings of $36.3 million for the 52 weeks ended May 4, 2013 compared to $28.1 million last year, an increase of $8.2 million. Included in net earnings for fiscal 2013 were dilution gains of $12.5 million (fiscal 2012 – $7.0 million), which include an adjustment to previously recorded dilution gains of $4.4 million (fiscal 2012 – $nil) as a result of Crombie REIT's restated net assets attributable to Unitholders.

The following table adjusts reported net earnings for these and other items which are considered not indicative of underlying business operating performance.

	52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012
Net earnings (investments and other operations)	**$ 44.9**	$ 35.3
Adjustments:		
One-time charge from equity accounted investments[1]	**5.9**	–
Gain on disposal of assets	**(2.0)**	(0.2)
Dilution gains[2]	**(12.5)**	(7.0)
	(8.6)	(7.2)
Adjusted net earnings[3]	**$ 36.3**	$ 28.1

(1) Reflects a decrease in equity earnings, net of tax, from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(2) Includes an increase in previously recorded dilution gains, net of tax, as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

(3) See Non-GAAP Financial Measures on page 31.

QUARTERLY RESULTS OF OPERATIONS

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

	Fiscal 2013				Fiscal 2012			
($ in millions, except per share amounts)	Q4 (13 Weeks) May 4, 2013	Q3 (13 Weeks) Feb. 2, 2013	Q2 (13 Weeks) Nov. 3, 2012	Q1 (13 Weeks) Aug. 4, 2012	Q4 (13 Weeks) May 5, 2012	Q3 (13 Weeks) Feb. 4, 2012	Q2 (13 Weeks) Nov. 5, 2011	Q1 (13 Weeks) Aug. 6, 2011
Sales	$ 4,308.9	$ 4,342.0	$ 4,404.1	$ 4,557.7	$ 4,073.8	$ 3,984.8	$ 4,036.3	$ 4,154.2
Operating income[1]	155.1	113.7	140.9	175.1	136.4	123.2	125.8	148.9
Net earnings, net of non-controlling interest	107.4	75.2	93.3	108.9	92.1	80.0	78.1	89.2
Per share information, basic								
Net earnings, net of non-controlling interest	$ 1.58	$ 1.11	$ 1.37	$ 1.60	$ 1.35	$ 1.18	$ 1.15	$ 1.31
Basic weighted average number of shares outstanding (in millions)	67.9	67.9	67.9	67.9	67.9	67.9	67.9	67.9
Per share information, diluted								
Net earnings, net of non-controlling interest	$ 1.58	$ 1.11	$ 1.37	$ 1.60	$ 1.35	$ 1.17	$ 1.15	$ 1.31
Diluted weighted average number of shares outstanding (in millions)	68.1	68.1	68.1	68.0	68.0	68.1	68.0	68.0

(1) See Non-GAAP Financial Measures on page 31.

As displayed in the table above, the Company's sales on a comparable 13 week basis have continued to show improvement compared with the same quarter of the prior year. The ongoing improvement in sales continues to be mainly driven by the performance of Sobeys as a result of its adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution, product and services innovation and, in the fourth quarter of fiscal 2012, the acquisition of 236 retail gas locations and related convenience store operations. The first quarter of fiscal 2013, ended August 4, 2012, was the first full quarter to include fuel sales related to this acquisition. Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures.

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

The Company does experience some seasonality as evidenced in the results presented above, in particular during the summer months and over the holidays.

Summary Table of Consolidated Financial Results for the Fourth Quarter

($ in millions, except per share amounts)	13 Weeks Ended May 4, 2013	% of Sales	May 5, 2012	% of Sales
Sales	$ 4,308.9	100.00%	$ 4,073.8	100.00%
EBITDA[1]	247.0	5.73%	224.2	5.50%
Adjusted EBITDA[1][2]	235.9	5.47%	222.2	5.45%
Operating income[1]	155.1	3.60%	136.4	3.35%
Net earnings, net of non-controlling interest	107.4	2.49%	92.1	2.26%
Adjusted net earnings, net of non-controlling interest[1][2]	98.6	2.29%	89.6	2.20%
Basic earnings per share				
Net earnings, net of non-controlling interest	$ 1.58		$ 1.35	
Adjusted net earnings, net of non-controlling interest[1][2]	$ 1.45		$ 1.32	
Basic weighted average number of shares outstanding (in millions)	67.9		67.9	
Diluted earnings per share				
Net earnings, net of non-controlling interest	$ 1.58		$ 1.35	
Adjusted net earnings, net of non-controlling interest[1][2]	$ 1.45		$ 1.32	
Diluted weighted average number of shares outstanding (in millions)	68.1		68.0	

(1) See Non-GAAP Financial Measures on page 31.

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

Sales

Consolidated sales for the fourth quarter of fiscal 2013 were $4.31 billion compared to $4.07 billion last year, a $235.1 million or 5.8 percent increase. Sales contributed by the food retailing segment equalled $4.26 billion compared to $4.02 billion in fiscal 2012. Excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased $96.4 million or 2.4 percent. Sobeys' same-store sales increased 0.6 percent during the fourth quarter of fiscal 2013.

For the 13 weeks ended May 4, 2013, Sobeys reported sales of $4.24 billion, an increase of $229.2 million or 5.7 percent from the $4.02 billion recorded last year. Excluding the impact of sales resulting from the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, Sobeys' fourth quarter sales increased $90.5 million or 2.3 percent. The 2.3 percent growth in Sobeys' fourth quarter sales was a direct result of continued increased retail selling square footage from new store and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

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

($ in millions)	13 Weeks Ended May 4, 2013	May 5, 2012	($) Change	(%) Change
Sales (reported by Sobeys)	$ 4,244.5	$ 4,015.3	$ 229.2	5.7%
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations	(269.7)	(131.0)	(138.7)	
Adjusted sales[1]	$ 3,974.8	$ 3,884.3	$ 90.5	2.3%

(1) See Non-GAAP Financial Measures on page 31.

Investments and other operations' sales for the fourth quarter of fiscal 2013 equalled $52.1 million versus $50.6 million in fiscal 2012, an increase of $1.5 million or 3.0 percent. The increase primarily relates to higher sales recorded by Empire Theatres as a result of higher attendance and concession revenues during the quarter.

EBITDA

Consolidated EBITDA in the fourth quarter of fiscal 2013 was $247.0 million compared to $224.2 million last year, an increase of $22.8 million or 10.2 percent. EBITDA margin increased 23 basis points to 5.73 percent in the fourth quarter of fiscal 2013 from 5.50 percent last year.

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

- Sobeys contributed EBITDA to Empire of $217.9 million versus $203.7 million in the fourth quarter of fiscal 2012, an increase of $14.2 million or 7.0 percent.
- Investments and other operations contributed EBITDA of $29.1 million in the 13 weeks ended May 4, 2013 compared to $20.5 million last year, an increase of $8.6 million or 42.0 percent.

Adjusted EBITDA for the fourth quarter of fiscal 2013 was $235.9 million (5.47 percent of sales) versus $222.2 million (5.45 percent of sales) last year. Included in EBITDA for the fourth quarter of fiscal 2013 were gains on the disposal of assets of $17.4 million (fiscal 2012 – $5.1 million) and transaction costs associated with the Canada Safeway proposed acquisition of $5.0 million (fiscal 2012 – $nil). These and other items which are considered not indicative of underlying business operating performance are outlined in the table below.

	13 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012
EBITDA[1] (consolidated)	**$ 247.0**	$ 224.2
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	**5.0**	–
Sobeys' organizational realignment costs	**2.0**	2.8
One-time charge from equity accounted investments[2]	**1.5**	–
Sobeys Québec distribution network restructuring	**(0.7)**	0.7
Dilution gains[3]	**(1.5)**	(0.4)
Gain on disposal of assets	**(17.4)**	(5.1)
	(11.1)	(2.0)
Adjusted EBITDA[1]	**$ 235.9**	$ 222.2

(1) See Non-GAAP Financial Measures on page 31.

(2) Reflects a decrease in equity earnings from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(3) Includes an increase in previously recorded dilution gains as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

Operating Income

The Company reported operating income of $155.1 million for the 13 weeks ended May 4, 2013 compared to $136.4 million for the 13 weeks ended May 5, 2012. The increase in operating income of $18.7 million or 13.7 percent is a result of a higher operating income contribution from the food retailing segment of $9.2 million or 7.7 percent, along with a higher contribution from investments and other operations of $9.5 million or 57.9 percent.

- Equity earnings from the Company's investment in Crombie REIT of $4.9 million were flat compared to the fourth quarter of fiscal 2012. Included in equity earnings for the quarter was a one-time charge of $1.5 million (fiscal 2012 – $nil) relating to Crombie REIT's restated earnings, as discussed. Excluding this one-time charge, equity earnings from Crombie REIT for the 13 weeks ended May 4, 2013 were $6.4 million.
- Real estate partnerships (Genstar) contributed equity earnings of $13.7 million in the fourth quarter, up $0.5 million from the fourth quarter of fiscal 2012.
- Other operations, net of corporate expenses, contributed operating income of $7.3 million versus $(1.7) million in the fourth quarter of the prior year. Included in other operations, net of corporate expenses, in the fourth quarter were gains on the disposal of assets of $2.6 million (fiscal 2012 – $0.2 million), dilution gains of $1.5 million (fiscal 2012 – $0.4 million) and an impairment charge related to an investment of $nil (fiscal 2012 – $1.1 million).

Finance Costs

Consolidated finance costs, net of finance income, in the fourth quarter of fiscal 2013 equalled $12.5 million versus $14.3 million last year. The $1.8 million decrease is primarily a result of lower interest expense of $1.7 million. EBITDA to interest expense for the 13 weeks ended May 4, 2013 increased to 19.8 times from 15.8 times in the same period of the prior year.

Income Taxes

The effective income tax rate for the 13 weeks ended May 4, 2013 was 24.0 percent versus 21.3 percent in the fourth quarter of fiscal 2012. The increase in the effective income tax rate is primarily due to the timing of the realization of tax benefits in the fourth quarter of fiscal 2012 compared to the same period in the current year, offset with a previously enacted decrease in the federal statutory rate.

Net Earnings

Consolidated net earnings, net of non-controlling interest, for the 13 weeks ended May 4, 2013 were $107.4 million ($1.58 per diluted share) compared to $92.1 million ($1.35 per diluted share) in fiscal 2012, an increase of $15.3 million or 16.6 percent. The increase is primarily related to the increase in operating income and lower finance costs, net of finance income, as discussed, partially offset by higher income taxes.

Adjusted Net Earnings

The table below adjusts fiscal 2013 and fiscal 2012 reported fourth quarter net earnings, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance.

	13 Weeks Ended	
($ in millions, except per share amounts, net of tax)	**May 4, 2013**	May 5, 2012
Net earnings, net of non-controlling interest	**$ 107.4**	$ 92.1
Adjustments:		
Transaction costs for Canada Safeway proposed acquisition	**4.0**	–
Sobeys' organizational realignment costs	**1.5**	2.0
One-time charge from equity accounted investments[1]	**1.1**	–
Sobeys Québec distribution network restructuring	**(0.5)**	0.4
Dilution gains[2]	**(1.1)**	(0.3)
Gain on disposal of assets	**(13.8)**	(4.6)
	(8.8)	(2.5)
Adjusted net earnings, net of non-controlling interest[3]	**$ 98.6**	$ 89.6
Adjusted net earnings, net of non-controlling interest, by segment:		
Food retailing	**$ 82.3**	$ 79.2
Investments and other operations	**16.3**	10.4
Adjusted net earnings, net of non-controlling interest[3]	**$ 98.6**	$ 89.6
Adjusted EPS (fully diluted)	**$ 1.45**	$ 1.32

(1) Reflects a decrease in equity earnings, net of tax, from the investment in Crombie REIT to account for the fair value of Crombie REIT's convertible debentures for the current year and restatement of prior years.

(2) Includes an increase in previously recorded dilution gains, net of tax, as a result of the adjustment to Crombie REIT's equity to account for the fair value of its convertible debentures for the current year and the restatement of prior years.

(3) See Non-GAAP Financial Measures on page 31.

For the 13 weeks ended May 4, 2013, excluding the impact of the above-noted items, Empire recorded adjusted net earnings, net of non-controlling interest, of $98.6 million ($1.45 per diluted share) compared to $89.6 million ($1.32 per diluted share) recorded in the 13 weeks ended May 5, 2012, an increase of $9.0 million or 10.0 percent.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

The Company's overall financial condition has improved since the start of the fiscal year as evidenced by the capital structure and key financial condition measures presented in the table below.

($ in millions, except per share ratio calculations)	May 4, 2013	May 5, 2012	May 7, 2011
Shareholders' equity, net of non-controlling interest	$ 3,726.2	$ 3,396.3	$ 3,162.1
Book value per common share	$ 54.84	$ 49.98	$ 46.48
Bank indebtedness	$ 6.0	$ 4.4	$ –
Long-term debt, including current portion	$ 963.5	$ 1,126.4	$ 1,152.4
Funded debt to total capital	20.6%	25.0%	26.7%
Net funded debt to net total capital	12.1%	15.4%	14.5%
Funded debt to EBITDA	1.0x	1.3x	1.3x
EBITDA to interest expense	17.8x	14.4x	11.9x
Current assets to current liabilities	1.0x	0.9x	1.1x
Total assets	$ 7,140.1	$ 6,913.1	$ 6,518.6

See Non-GAAP Financial Measures section in this MD&A for definitions of funded debt, net funded debt, total capital, net total capital, interest expense and EBITDA.

Shareholders' Equity

Book value per common share was $54.84 at May 4, 2013 compared to $49.98 at May 5, 2012. The increase in book value largely reflects the Company's earnings growth, as discussed.

The Company's share capital on May 4, 2013 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	$ in Millions
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	–	$ –
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 319.3

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 4, 2013 for a total of 67,948,510 shares outstanding. This is unchanged from the previous fiscal year-end.

During fiscal 2013, 45,310 options (fiscal 2012 – 73,247 options) were issued under Empire's long-term incentive plan. The options issued in fiscal 2013 allow the holder to purchase Non-Voting Class A shares at $53.93 per share (fiscal 2012 – $54.40 per share). Empire had 684,128 options outstanding at May 4, 2013 compared to 638,818 options outstanding at May 5, 2012. There were no options exercised during fiscal 2013 or fiscal 2012.

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

	Fiscal 2013		Fiscal 2012	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Balance, beginning of year	638,818	$ 46.57	565,571	$ 45.55
Granted	45,310	53.93	73,247	54.40
Balance, end of year	684,128	$ 47.06	638,818	$ 46.57
Stock options exercisable, end of year	468,450		329,050	

The 684,128 stock options outstanding as at the fiscal year ended May 4, 2013 (May 5, 2012 – 638,818 stock options) represents 1.0 percent (May 5, 2012 – 0.9 percent) of the outstanding Non-Voting Class A and Class B common shares.

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.

As at June 27, 2013, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 684,128 options to acquire in aggregate 684,128 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $65.2 million in fiscal 2013 ($0.96 per share) versus $61.1 million ($0.90 per share) in fiscal 2012.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at May 4, 2013 was $963.5 million, representing 99.4 percent of Empire's total funded debt.

The composition of funded debt by segment is as follows:

($ in millions)	May 4, 2013	May 5, 2012	May 7, 2011
Bank indebtedness			
Investments and other operations	$ 6.0	$ 4.4	$ –
Long-term debt (including current portion)			
Food retailing	765.2	975.6	999.3
Investments and other operations	198.3	150.8	153.1
Total funded debt[1]	$ 969.5	$ 1,130.8	$ 1,152.4

(1) See Non-GAAP Financial Measures on page 31.

Consolidated funded debt has decreased $161.3 million from the $1,130.8 million reported at the start of the fiscal year. The decrease in consolidated funded debt from fiscal 2012 was primarily due to a $210.4 million decline in funded debt at Sobeys, partially offset by higher debt levels in investments and other operations of $49.1 million. During the first quarter of fiscal 2013, Sobeys repaid its $200.0 million non-revolving term credit facility, as detailed below.

On August 22, 2011, Empire extended the term of its $450.0 million credit facility to a maturity date of June 30, 2014. On September 26, 2012, Empire further extended the term of the credit facility to a maturity date of June 30, 2015.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of $450.0 million, and a $200.0 million unsecured non-revolving term credit facility resulting in total authorized credit facilities of $650.0 million. In the fourth quarter of fiscal 2013, Sobeys extended the maturity date of the revolving term credit facility from February 14, 2016 to February 14, 2017, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on the revolving term credit facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR"). As at May 4, 2013, Sobeys had issued $80.6 million (May 5, 2012 – $52.7 million) in letters of credit against the revolving term credit facility.

The ratio of funded debt to total capital has improved 4.4 percentage points to 20.6 percent from 25.0 percent at the end of fiscal 2012. This improvement is mainly a result of lower consolidated funded debt levels due partially to the repayment of Sobeys' non-revolving term credit facility of $200.0 million, as mentioned, and higher shareholders' equity levels due to growth in retained earnings.

Empire's funded debt to EBITDA ratio improved from 1.3 times at May 5, 2012 to 1.0 times at May 4, 2013 due to lower consolidated funded debt levels as mentioned and a 7.7 percent increase in fiscal 2013 EBITDA.

Empire's EBITDA to interest expense ratio improved from 14.4 times recorded at the beginning of the fiscal year to 17.8 times at May 4, 2013. The improvement over fiscal 2012 is primarily due to a 13.3 percent decline in interest expense accompanied by an increase in fiscal 2013 EBITDA of 7.7 percent, as discussed.

As at May 4, 2013, Sobeys' credit ratings were BBB with a stable trend from Dominion Bond Rating Service ("DBRS") and BBB- with a stable trend from Standard and Poor's ("S&P"). Subsequent to the June 12, 2013 announcement regarding the Asset Purchase Agreement to acquire substantially all of the assets and select liabilities of Canada Safeway, S&P reaffirmed their rating of BBB- and downgraded the trend to negative. DBRS placed their rating under review with negative implications.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 13 and 15 to the Company's audited annual consolidated financial statements for the 52 weeks ended May 4, 2013.

Financing of the Canada Safeway Proposed Acquisition

Subsequent to fiscal year-end, Sobeys entered into an agreement with Safeway Inc. and its subsidiaries, pursuant to which Sobeys agreed to purchase substantially all of the assets of Canada Safeway. See "Subsequent Events" for a discussion of the proposed financing for that transaction.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity risk. From time to time, the Company utilizes hedging instruments as deemed appropriate to mitigate risk exposure to one or more types of financial risk. The Company does not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 52 weeks ended May 4, 2013 or for the comparative periods in fiscal 2012.

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

In-Place Financial Instruments

The Company utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. In July 2007, Sobeys entered into an interest rate swap for $200.0 million to fix the interest rate on a portion of its floating rate debt. This credit facility matured and was repaid in July 2012 with the interest rate swap being settled concurrently. On a consolidated basis, there were no interest rate instruments outstanding at May 4, 2013.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 Canadian Dollar ("CAD")/ United States Dollar ("USD") to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of May 4, 2013, Sobeys recognized a liability of $0.2 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus/(minus) $0.6 million and would impact other comprehensive income by plus/(minus) $0.4 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at May 4, 2013 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third party quoted bid, ask and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 3 and 25 to the Company's annual audited financial statements for the 52 weeks ended May 4, 2013.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

At May 4, 2013, consolidated cash and cash equivalents was $455.2 million versus $510.2 million at May 5, 2012.

At the end of the fourth quarter of fiscal 2013, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of $450.0 million, of which $181.0 million or 40.2 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $675.2 million at May 4, 2013.

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

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 52 weeks ended May 4, 2013 and for the fiscal year ended May 5, 2012.

The following table highlights major cash flow components for the 13 and 52 weeks ended May 4, 2013 compared to the 13 and 52 weeks ended May 5, 2012.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Net earnings	**$ 108.4**	$ 96.1	**$ 393.9**	$ 352.1
Non-cash and other cash items	**129.5**	118.3	**548.1**	507.5
Net change in non-cash working capital	**26.6**	175.7	**(67.4)**	86.2
Income taxes paid, net	**(25.0)**	(22.7)	**(86.5)**	(131.1)
Dividends paid, preferred share	**–**	–	**–**	(0.1)
Cash flows from operating activities	**239.5**	367.4	**788.1**	814.6
Cash flows used in investing activities	**(91.3)**	(428.0)	**(555.3)**	(768.3)
Cash flows (used in) from financing activities	**(63.5)**	26.2	**(287.8)**	(152.0)
Increase (decrease) in cash and cash equivalents	**$ 84.7**	$ (34.4)	**$ (55.0)**	$ (105.7)

Operations

The fourth quarter of fiscal 2013 generated cash flows from operating activities of $239.5 million compared to $367.4 million in the comparable period last year. The $127.9 million decrease is primarily attributed to a $149.1 million decrease in the net change in non-cash working capital and a $2.3 million increase in income taxes paid. These amounts were partially offset by an increase in net earnings of $12.3 million and an increase in non-cash and other cash items of $11.2 million.

Cash flows from operating activities for the 52 weeks ended May 4, 2013 were $788.1 million compared to $814.6 million for the 52 weeks ended May 5, 2012. The $26.5 million decrease was primarily a result of a decrease in the net change in non-cash working capital of $153.6 million. This was partially offset by: (i) a $44.6 million decrease in income taxes paid; (ii) a $41.8 million increase in net earnings; and (iii) a $40.6 million increase in non-cash and other cash items.

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

Non-Cash Working Capital (Quarter-Over-Quarter)			13 Weeks Ended May 4, 2013	13 Weeks Ended May 5, 2012
($ in millions)	May 4, 2013	Feb. 2, 2013	Increase (Decrease) in Cash Flows	Increase (Decrease) in Cash Flows
Receivables	$ 381.7	$ 324.6	$ (57.1)	$ (32.1)
Inventories	900.8	895.0	(5.8)	25.2
Prepaid expenses	86.2	72.4	(13.8)	(6.3)
Accounts payable and accrued liabilities	(1,765.8)	(1,657.0)	108.8	182.5
Provisions	(30.6)	(37.4)	(6.8)	3.2
Impact of reclassifications on working capital	(1.3)	–	1.3	3.2
Total	$ (429.0)	$ (402.4)	$ 26.6	$ 175.7

The net change in non-cash working capital of $26.6 million in the fourth quarter is largely attributed to an increase in accounts payable and accrued liabilities of $108.8 million. The increase in accounts payable and accrued liabilities was partially offset by: (i) an increase in receivables of $57.1 million; (ii) an increase in prepaid expenses of $13.8 million; (iii) a decrease in provisions of $6.8 million; and (iv) an increase in inventories of $5.8 million. The increase in inventories in the fourth quarter of fiscal 2013 compared to the decrease last year relates to increased fuel inventory compared to the prior year, combined with increased inventory related to the opening of the new distribution centre in Terrebonne, Québec in the third quarter of fiscal 2013.

The Company's ratio of current assets to current liabilities of 1.0 times was up slightly from the 0.9 times reported in the same period last year.

Investment

Cash used in investing activities of $91.3 million in the fourth quarter of fiscal 2013 decreased $336.7 million compared to cash used in investing activities of $428.0 million last year. The decrease was primarily the result of: (i) a decrease in cash used for business acquisitions of $215.6 million; (ii) an increase in proceeds on disposal of property, equipment and investment property of $56.4 million; (iii) a decrease in property, equipment and investment property purchases of $52.4 million; (iv) a decline in cash used to fund a net increase in investments of $42.0 million; and (v) a decrease in additions to intangibles of $4.2 million. These amounts were partially offset by an increase in cash used in loans and other receivables of $26.9 million and an increase in cash used to fund other assets and other long-term liabilities of $7.3 million.

Consolidated purchases of property, equipment and investment properties totalled $131.6 million in the 13 weeks ended May 4, 2013 compared to $184.0 million in the 13 weeks ended May 5, 2012. Proceeds on the disposal of property, equipment and investment properties increased $56.4 million from $25.0 million recorded in the fourth quarter of fiscal 2012 to $81.4 million recorded in the fourth quarter of fiscal 2013. During the quarter, the Company sold four properties (fiscal 2012 – zero properties) to Crombie REIT, three (fiscal 2012 – zero) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $53.3 million (fiscal 2012 – $nil).

For the 52 weeks ended May 4, 2013, cash used in investing activities was $555.3 million, a decrease of $213.0 million from cash used in investing activities of $768.3 million last year. The decrease was primarily the result of: (i) a decrease in cash used to fund business acquisitions of $229.8 million; (ii) a decrease in property, equipment and investment property purchases of $70.8 million; (iii) an increase in cash generated from other assets and other long-term liabilities of $28.9 million; and (iv) a decrease in additions to intangibles of $3.6 million. Partially offsetting these amounts were: (i) an increase in cash used to fund a net increase in investments of $63.3 million; (ii) an increase in cash used to fund loans and other receivables of $41.6 million; and (iii) a $14.9 million decrease in proceeds on disposal of property, equipment and investment property.

For the 52 weeks ended May 4, 2013, consolidated purchases of property, equipment and investment properties totalled $531.9 million compared to $602.7 million last year. Proceeds on the disposal of property, equipment and investment properties decreased $14.9 million from $196.0 million recorded in fiscal 2012 to $181.1 million recorded in fiscal 2013. During fiscal 2013, the Company sold eight properties (fiscal 2012 – nine properties) to Crombie REIT, seven (fiscal 2012 – seven) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $106.0 million (fiscal 2012 – $123.9 million).

The table below outlines the number of stores Sobeys invested in during the 13 and 52 weeks ended May 4, 2013 compared to the 13 and 52 weeks ended May 5, 2012.

Sobeys' Corporate and Franchised Store Construction Activity

	13 Weeks Ended		52 Weeks Ended	
# of stores	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Opened/acquired/relocated	**16**	9	**45**	45
Acquisition of retail gas locations and related convenience store operations	**–**	236	**–**	236
Expanded	**1**	4	**2**	13
Rebannered/redeveloped	**–**	16	**7**	30
Closed	**12**	10	**37**	44

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 4, 2013, by type.

Sobeys' Square Footage Changes

	13 Weeks Ended	52 Weeks Ended
Square feet (in thousands)	May 4, 2013	May 4, 2013
Opened	297	933
Relocated	67	67
Acquired	13	14
Expanded	10	27
Closed	(140)	(486)
Net change	247	555

At May 4, 2013, Sobeys' square footage totalled 29.9 million square feet, a 2.0 percent increase over the 29.3 million square feet operated at the end of fiscal 2012.

Financing

Financing activities during the fourth quarter used $63.5 million of cash compared to $26.2 million of cash generated in the same quarter last year. The increase in cash used of $89.7 million is primarily the result of: (i) a decrease in the issuance of long-term debt of $47.3 million; (ii) an increase in the repayment of long-term debt of $34.5 million; and (iii) an increase in interest paid of $8.4 million.

During the 52 weeks ended May 4, 2013, financing activities used $287.8 million of cash compared to $152.0 million of cash used in fiscal 2012. The increase of $135.8 million is primarily the result of an increase in the repayment of long-term debt of $169.7 million and a decrease in bank indebtedness of $2.8 million. Partially offsetting these amounts were an increase in the issuance of long-term debt of $31.1 million and a decrease in interest paid of $5.6 million.

Business Acquisitions

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada for $214.9 million. The network acquired includes corporate owned and dealer operated locations. The acquisition of these retail gas locations complements Sobeys' convenience store operations.

The total consideration of $214.9 million was paid in cash. Acquisition costs of $3.9 million relating to external legal, consulting, due diligence and other closing costs were incurred and have been included in selling and administrative expenses in the consolidated statements of earnings for the 13 and 52 weeks ended May 5, 2012.

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

($ in millions)	
Inventories	$ 8.0
Property and equipment	136.3
Intangibles	22.3
Provisions	(23.2)
Other assets and liabilities	5.2
Total identifiable net assets	$ 148.6
Excess consideration paid over identifiable net assets acquired	$ 66.3

During fiscal 2013, management finalized the purchase price allocation related to this acquisition. As a result, the consolidated balance sheet as at May 4, 2013 was adjusted by an increase to land of $1.7 million, a decrease to equipment of $3.4 million, an increase to provisions of $0.6 million and an increase to goodwill of $2.3 million.

Guarantees and Commitments

Guarantees

Franchise Affiliates

Sobeys has a guarantee contract under the terms of which, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 million or 9.9 percent (fiscal 2012 – $7.0 million or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 4, 2013, the amount of the guarantee was $7.0 million (fiscal 2012 – $7.0 million).

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

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of $6.0 million or 10.0 percent (fiscal 2012 – $6.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SPEs. As at May 4, 2013, the amount of the guarantee was $6.0 million (fiscal 2012 – $6.0 million).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2014 is approximately $15.8 million. The guaranteed lease commitments over the next five fiscal years are:

($ in millions)	Third Parties
2014	$ 15.8
2015	0.5
2016	0.3
2017	–
2018	–
Thereafter	–

Other

At May 4, 2013, the Company was contingently liable for letters of credit issued in the aggregate amount of $97.8 million (fiscal 2012 – $69.6 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by SERCA Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is seven years with an aggregate obligation of $22.6 million (fiscal 2012 – $25.6 million). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Long-Term Debt

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

($ in millions)	
2014	$ 37.0
2015	41.0
2016	199.2
2017	10.0
2018	105.7
Thereafter	534.2

Finance Leases

Finance lease liabilities are payable as follows:

($ in millions)	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
2014	$ 12.3	$ 1.7	$ 10.6
2015	8.0	1.2	6.8
2016	6.2	1.0	5.2
2017	6.1	0.7	5.4
2018	4.0	0.5	3.5
Thereafter	9.6	2.4	7.2
	$ 46.2	$ 7.5	$ 38.7

During fiscal 2013, the Company increased its finance lease obligation by $8.8 million (fiscal 2012 – $4.2 million) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

Operating Leases, as Lessee

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

The total net, future minimum rent payable under the Company's operating leases as of May 4, 2013 is approximately $2,748.9 million. This reflects a gross lease obligation of $3,730.1 million reduced by expected sub-lease income of $981.2 million. The net commitments over the next five fiscal years are:

	Third Parties		Related Parties	
($ in millions)	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2014	$ 228.8	$ 338.6	$ 65.8	$ 65.8
2015	214.4	315.6	65.7	65.7
2016	198.6	293.6	64.8	64.8
2017	180.8	266.2	58.0	58.0
2018	163.3	237.1	57.2	57.2
Thereafter	888.1	1,404.1	563.4	563.4

The Company recorded $440.0 million (fiscal 2012 – $411.6 million) as an expense for minimum lease payments for the fiscal year ended May 4, 2013 in the consolidated statements of earnings. The expense was offset by sub-lease income of $129.9 million (fiscal 2012 – $118.3 million), and a further $9.2 million (fiscal 2012 – $4.5 million) of expense was recognized for contingent rent.

Operating Leases, as Lessor

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

Rental income for the fiscal year ended May 4, 2013 was $59.2 million (fiscal 2012 – $41.7 million) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized $1.0 million of contingent rent for the fiscal year ended May 4, 2013 (fiscal 2012 – $1.5 million).

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

($ in millions)	Third Parties
2014	$ 7.1
2015	5.9
2016	5.5
2017	5.2
2018	4.4
Thereafter	24.6

Free Cash Flow

Free cash flow is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 13 and 52 weeks ended May 4, 2013 and the 13 and 52 weeks ended May 5, 2012.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 4, 2013**	May 5, 2012	**May 4, 2013**	May 5, 2012
Cash flow from operating activities	**$ 239.5**	$ 367.4	**$ 788.1**	$ 814.6
Add: proceeds on disposal of property, equipment and investment property	**81.4**	25.0	**181.1**	196.0
Less: property, equipment and investment property purchases	**(131.6)**	(184.0)	**(531.9)**	(602.7)
Free cash flow[(1)]	**$ 189.3**	$ 208.4	**$ 437.3**	$ 407.9

(1) See Non-GAAP Financial Measures on page 31.

Free cash flow generation in the fourth quarter of fiscal 2013 was $189.3 million compared to $208.4 million generated in the fourth quarter last year. The $19.1 million decrease in free cash flow was due to a $127.9 million decrease in cash flow from operating activities, partially offset by a $56.4 million increase in proceeds on the disposal of property, equipment and investment property and a $52.4 million decrease in property, equipment and investment property purchases. The $127.9 million decrease in cash flow from operating activities is primarily attributed to a $149.1 million decrease in the net change in non-cash working capital and an increase in income taxes paid of $2.3 million, partially offset by an increase in net earnings of $12.3 million and an increase in non-cash and other cash items of $11.2 million.

For the 52 weeks ended May 4, 2013, free cash flow generation was $437.3 million compared to $407.9 million generated last year. The $29.4 million increase in free cash flow was primarily the result of a $70.8 million decrease in property, equipment and investment property purchases, partially offset by a decline in cash flow from operating activities of $26.5 million and a decline in proceeds on the disposal of property, equipment and investment property of $14.9 million. The $26.5 million decrease in cash flow from operating activities was primarily a result of a decrease in the net change in non-cash working capital of $153.6 million, partially offset by: (i) a $44.6 million decrease in income taxes paid; (ii) a $41.8 million increase in net earnings; and (iii) a $40.6 million increase in non-cash and other cash items.

ACCOUNTING STANDARDS AND POLICIES

Accounting Standards and Policies Adopted During Fiscal 2013

(i) Financial Instruments: Disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments became effective in the Company's first quarter of fiscal 2013. No new disclosures were required for the consolidated financial statements as a result of implementing these amendments.

(ii) Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to International Accounting Standard ("IAS") 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments became effective in the Company's first quarter of fiscal 2013. These amendments did not impact the Company, as its investment properties are not measured at fair value.

Future Changes in Accounting Standards

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and to establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely and is effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SPE's, and does not expect it to have a significant impact.

(iii) Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, this IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled and is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

(iv) Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. It is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard will result in additional financial statement note disclosures relating to the Company's investments in associates and joint ventures.

(v) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013.

(vi) Employee Benefits

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The preliminary expected impact of the changes to this standard for the 52 weeks ended May 4, 2013 is a reduction in pre-tax earnings of $7.1 million and a pre-tax increase to other comprehensive income of $6.4 million.

(vii) Presentation of Financial Statements

In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments are effective for annual periods beginning on or after January 1, 2013.

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

Critical Accounting Estimates

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

Impairment of Non-Financial Assets

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

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

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

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

Pension Benefit Plans and Other Benefit Plans

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

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

The impact of plan amendments is recognized as an expense and amortized on a straight-line basis over the average period until the benefits are vested. To the extent that increases in the obligation related to past service have vested immediately following the changes in the original plan, the Company recognizes past service cost immediately.

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

Income Taxes

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

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

Valuation of Inventories

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

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

Provisions

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

Disclosure Controls and Procedures

Management of Empire, which includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". As at May 4, 2013, the CEO and CFO have evaluated, or caused to be evaluated under our supervision, the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO have concluded that Empire's DC&P was effective as at May 4, 2013.

Internal Control over Financial Reporting

Management of Empire, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission. As at May 4, 2013, the CEO and CFO have evaluated, or caused to be evaluated under our supervision, the design and operating effectiveness of the Company's ICFR. Based on the evaluation, the CEO and CFO have concluded that Empire's ICFR was effective as at May 4, 2013.

There have been no changes in Empire's ICFR during the period beginning February 3, 2013 and ended May 4, 2013 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

RELATED PARTY TRANSACTIONS

The Company has related party transactions with various associates. The Company holds a 42.8 percent ownership interest in Crombie REIT which is accounted for using the equity method. As a result of the issuance of Crombie REIT units during the current fiscal year, partially offset by the Company's subscription of Class B limited partnership units and the conversion of Crombie REIT debentures, the Company's interest in Crombie REIT was reduced from 44.3 percent to 42.8 percent. On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.8 percent.

The Company rents premises from Crombie REIT at amounts which, in management's opinion, approximate fair market value. Based upon the significant number of leases negotiated with third parties operating in the same markets in which the Company rents premises from Crombie REIT, management has determined the rental payments to Crombie REIT to be indicative of fair value. During the fiscal year 2013, the aggregate net payments under these leases, which are measured at exchange amount, were $80.6 million (fiscal 2012 – $75.1 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 52 weeks ended May 4, 2013, charges incurred for administrative and management services were $1.0 million (fiscal 2012 – $1.5 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of $2.4 million (fiscal 2012 – $3.2 million) related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

During fiscal 2013, the Company sold eight properties (fiscal 2012 – nine properties) to Crombie REIT, seven (fiscal 2012 – seven) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $106.0 million (fiscal 2012 – $123.9 million), resulting in a pre-tax gain of $15.0 million (fiscal 2012 – $12.4 million), which was recognized in the consolidated statements of earnings. During fiscal 2012, the Company 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. No properties were acquired during fiscal 2013.

The Company owns Crombie REIT Debentures with a market value of $24.8 million (May 5, 2012 – $nil). At May 5, 2012, the Company owned Crombie REIT Series B convertible unsecured subordinated debentures with a market value of $12.8 million. During the 52 weeks ended May 4, 2013, the Company received income related to these securities of $1.2 million (fiscal 2012 – $0.6 million).

On October 20, 2011, Crombie REIT closed a bought-deal public offering of units at a price of $12.85 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for $30.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

During the quarter ended November 5, 2011, fixed rate secured mortgages provided to Crombie REIT in the amount of $5.6 million were repaid in their entirety. During the 52 weeks ended May 5, 2012, the Company received income related to these mortgages of $0.2 million.

On March 29, 2012, Crombie REIT closed a bought-deal public offering of units at a price of $14.50 per unit. Concurrent with the public offering, the Company subscribed for approximately $53.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

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

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

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

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

SUBSEQUENT EVENTS

On June 12, 2013, the Company and Sobeys announced that Sobeys entered in an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of Cdn. $5.8 billion, subject to a working capital adjustment, plus the assumption of certain liabilities. The agreement provides for the purchase of the following:

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

The Company's and Sobeys' announcement included their intention that financing for the acquisition will come from a combination of the following: (i) a planned $1.5 billion Empire equity offering; (ii) a planned $1.0 billion sale-leaseback of acquired real estate assets; (iii) a $1.825 billion term loan and the issuance of $800 million in unsecured notes by Sobeys; (iv) other real estate and non-core asset sales; and (v) available cash on hand. As some of these transactions may not be completed by the time of closing, Scotiabank has provided Empire and Sobeys with fully committed credit facilities for the full purchase price plus transaction expenses required to close the transaction. Crombie REIT has a right of first offer in respect of any real estate sales undertaken by Sobeys. The closing of the acquisition is expected during the Company's second quarter of fiscal 2014, and is subject to the fulfillment or waiver of certain customary closing conditions as well as the receipt of required regulatory approvals, including that of the Competition Bureau.

Acquisition costs of $5.0 million relating to external legal, consulting, due diligence and other closing costs were incurred to May 4, 2013.

On June 27, 2013, the Company announced that Empire Theatres has reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres in Atlantic Canada and 2 theatres in Ontario. Empire Theatres has also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres in Ontario and Western Canada.

The purchase price for the Cineplex transaction is $200 million to be paid in cash, subject to certain adjustments to be made at closing.

The purchase price for the Landmark transaction is approximately $55 million subject to certain adjustments to be made at closing, with the purchase price to be paid as follows: $31 million in cash on closing; $19 million in equity; and an earn out right which management estimates has a potential value of approximately $5 million. Upon closing, the assets will be held by a new entity with the Empire Theatres' equity being the controlling interest. The new entity will be consolidated into the Company's financial statements, including $30 million of debt in the new entity. Landmark will manage the business and have a right to buy out Empire Theatres' equity interest for $19 million in cash until December 31, 2013, following which Empire Theatres can agree to sell its equity interest in the entity and require Landmark to sell on the same terms.

Closing of the transaction with Cineplex and also with Landmark is subject to satisfaction of customary conditions and relevant regulatory approvals, which includes approval from the Competition Bureau. Closing of each transaction is expected to occur by late summer of 2013. Empire Theatres is not obligated to close either transaction without closing the other.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 52 weeks ended May 4, 2013, the Company contributed $9.6 million to its registered defined benefit plans (fiscal 2012 – $10.7 million). The Company expects to contribute approximately $8.4 million in fiscal 2014 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

CONTINGENCIES

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

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

RISK MANAGEMENT

Through its operating companies and its equity-accounted investments, Empire is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company has operating and risk management strategies and insurance programs to help minimize these risks.

Empire has adopted an annual enterprise risk management assessment which is overseen by the Company's senior management and reported to the Board of Directors and Committees of the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across the Company.

Competition

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

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 800 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. 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. Sobeys approaches the market with five distinct formats to meet a broader spectrum of needs of its customers in order to enhance profitability by region and target market.

Sobeys' real estate development operations and Empire, through its investment in Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect their ability to: (i) acquire property in compliance with their investment criteria; (ii) lease space in their properties; and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect 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 ensure high occupancy levels are maintained at each of its properties.

Continued growth of rental income is dependent on renewing expiring leases and locating new tenants to fill vacancies at market rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served and the availability of attractive financing to expand the real estate portfolio where deemed prudent. To mitigate this risk, Crombie REIT and Sobeys utilize staggered lease maturities to ensure that there are not unusually large amounts of leasable space coming up for renewal in any given year.

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.

Financial

Empire and its operating companies have adopted a number of key financial policies to manage financial risk. Risks can also arise from changes in the rules or standards governing accounting or financial reporting. The Company employs numerous professionally accredited accountants throughout its finance group.

In the ordinary course of managing its debt, the Company utilizes financial instruments from time to time to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes. The majority of Company debt is at fixed rates; accordingly, there is limited exposure to interest rate risk until debt maturity.

Liquidity

Liquidity risk is the risk that the Company may not have cash available 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 at a reasonable cost. The Company monitors capital markets and the related economic conditions. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities, and as other liabilities come due or as assessed to be appropriate, in order to minimize risk and optimize pricing.

Interest Rate

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. At May 4, 2013, bank indebtedness and approximately 31.4 percent of the Company's long-term debt was exposed to interest rate risk due to floating rates.

Insurance

Empire and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and also purchases 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.

Human Resources

Empire is exposed to the risk of labour disruption in its operations. Labour disruptions pose a moderate operational risk as Sobeys operates an integrated network of 24 distribution centres across the country for the food retailing segment. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2014. 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.

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.

Business Continuity

The Company is subject to unexpected events and natural hazards which could cause sudden or complete cessation of its day-to-day operations. One such unexpected event and natural hazard is the risk of a pandemic. Sobeys has worked with industry and government sources to develop a pandemic preparedness plan. Responsibility for business continuity planning has been designated to the Human Resources Committee of Empire's Board of Directors.

Environmental Health and Safety

The Company is continually enhancing its programs in the areas of environmental health and safety and is in compliance with relevant legislation. Employee awareness and training programs are conducted and environmental health and safety risks are reviewed on a regular basis.

Any environmental site remediation is completed using appropriate, qualified internal and external resources and health and safety issues are proactively dealt with. The Board of Directors receives regular reports which review outstanding matters, identify new legislation and outline new programs being implemented across the Company to positively impact the environment and employee health and safety.

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.

Each operating business conducts an ongoing, comprehensive environmental monitoring process and the Company is unaware of any material environmental liabilities in any of its operating companies. Empire's Board of Directors receives quarterly reports that review any outstanding issues including plans to resolve them.

Occupational Health and Safety

Empire and Sobeys have 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, theatres, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board.

Food Safety and Security

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

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

Technology

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.

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail stores and theatres, 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.

Operations

The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchise affiliates operate approximately 53 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. As well, Sobeys maintains head lease control or has long-term buying agreements to control the vast majority of its retail locations.

Supply Chain

Sobeys is exposed to potential supply chain disruptions that could result in shortages of merchandise in its retail store network. Sobeys mitigates this risk through effective supplier selection and procurement practices, along with a reliance on the efficient maintenance and evolution of its supply and logistics chain, to sustain and meet growth objectives.

Drug Regulation

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

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.

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. Sobeys has various procurement and merchandising programs in place to mitigate this risk.

Utility and Fuel Prices

The Company is a significant consumer of electricity, other utilities and fuel. Unanticipated cost increases in these items could negatively affect the Company's financial performance. The Company has various consumption and procurement programs in place to minimize utility risk.

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro and the USD. USD purchases of product by the food retailing segment represent approximately three percent of Sobeys' total annual purchases with Euro purchases limited to specific contracts for capital expenditures. Sobeys has processes in place to use forward contracts with high quality counterparties to fix the exchange rate on some of its expected requirements for Euros and USD.

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.

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.

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. With a view to enhancing and standardizing the controls to manage the information management risk, the Company is developing corporate operating policies which establish minimum standards for the usage, security and appropriate destruction of information. Furthermore, enterprise metrics are being identified to assist in monitoring significant information management risks.

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. The Company has established prudent hurdle rates for capital investments that are evaluated through a prudent due diligence process.

Access to Capital

Access to capital risk refers to Empire or its operating companies being unable to obtain required capital at reasonable terms, given the prevailing market conditions. There are several factors that impact the level of inherent risk: the state of the capital markets; the level of capital required; the credit rating assigned by the rating agencies; and the availability of credit from banks. Empire mitigates these risks by maintaining strong relationships with its banks and continuously monitors its credit ratings.

Economic Environment

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

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 and 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.

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

Dated: June 27, 2013
Stellarton, Nova Scotia, Canada

Consolidated financial statements

Table of Contents

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING	**69**
INDEPENDENT AUDITOR'S REPORT	**70**
CONSOLIDATED FINANCIAL STATEMENTS	**71**
Consolidated Balance Sheets	**71**
Consolidated Statements of Earnings	**72**
Consolidated Statements of Comprehensive Income	**72**
Consolidated Statements of Changes in Shareholders' Equity	**73**
Consolidated Statements of Cash Flows	**74**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	**75**
ELEVEN-YEAR FINANCIAL REVIEW	**116**
GLOSSARY	**118**
SHAREHOLDER AND INVESTOR INFORMATION	**IBC**

Management's statement of responsibility for financial reporting

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or Generally Accepted Accounting Principles and reflect management's best estimates and judgments. All other financial information in the report is consistent with that contained in the consolidated financial statements.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the consolidated financial statements, the safeguarding of Company assets, and the prevention and detection of fraudulent financial reporting.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and composed solely of directors who are unrelated to, and independent of, the Company, meet regularly with financial management and external auditors to satisfy itself as to reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual consolidated financial statements to be issued to shareholders.

The external auditors have full and free access to the Audit Committee.

Paul D. Sobey
President and
Chief Executive Officer
June 27, 2013

Paul V. Beesley
Executive Vice President and
Chief Financial Officer
June 27, 2013

Independent auditor's report

To the shareholders of Empire Company Limited

We have audited the accompanying consolidated financial statements of Empire Company Limited, which comprise the consolidated balance sheets as at May 4, 2013 and May 5, 2012 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the 52 week fiscal years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Empire Company Limited as at May 4, 2013 and May 5, 2012, and its consolidated financial performance and its consolidated cash flows for the 52 week fiscal years then ended, in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Chartered Accountants

Halifax, Canada
June 27, 2013

CONSOLIDATED BALANCE SHEETS

As At (in millions of Canadian dollars)	May 4, 2013	May 5, 2012
Assets		
Current		
Cash and cash equivalents	$ 455.2	$ 510.2
Receivables	381.7	362.0
Inventories *(Note 4)*	900.8	825.3
Prepaid expenses	86.2	77.6
Loans and other receivables *(Note 5)*	66.2	41.0
Investments	14.5	–
Income taxes receivable	33.8	46.8
Assets held for sale	22.0	28.2
	1,960.4	1,891.1
Loans and other receivables *(Note 5)*	53.8	60.6
Investments	25.0	13.0
Investments, at equity *(Note 6)*	407.6	313.4
Other assets *(Note 7)*	50.5	68.5
Property and equipment *(Note 8)*	2,703.0	2,679.2
Investment property *(Note 9)*	96.9	86.9
Intangibles *(Note 10)*	490.5	461.8
Goodwill *(Note 11)*	1,310.4	1,302.1
Deferred tax assets *(Note 12)*	42.0	36.5
	$ 7,140.1	$ 6,913.1
Liabilities		
Current		
Bank indebtedness *(Note 13)*	6.0	4.4
Accounts payable and accrued liabilities	1,765.8	1,729.8
Income taxes payable	75.2	16.7
Provisions *(Note 14)*	30.6	30.1
Long-term debt due within one year *(Note 15)*	47.6	237.3
	1,925.2	2,018.3
Provisions *(Note 14)*	52.9	59.7
Long-term debt *(Note 15)*	915.9	889.1
Other long-term liabilities *(Note 16)*	308.0	324.6
Deferred tax liabilities *(Note 12)*	180.6	190.0
	3,382.6	3,481.7
Shareholders' Equity		
Capital stock *(Note 18)*	319.3	319.3
Contributed surplus	6.7	6.1
Retained earnings	3,408.3	3,081.7
Accumulated other comprehensive loss	(8.1)	(10.8)
	3,726.2	3,396.3
Non-controlling interest	31.3	35.1
	3,757.5	3,431.4
	$ 7,140.1	$ 6,913.1

See accompanying notes to the consolidated financial statements.

On Behalf of the Board

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS

52 Weeks Ended (in millions of Canadian dollars, except per share amounts)	May 4, 2013	May 5, 2012
Sales	$ 17,612.7	$ 16,249.1
Other income *(Note 19)*	56.8	33.8
Share of earnings from investments, at equity *(Note 6)*	44.0	49.3
Operating expenses		
Cost of sales	13,411.8	12,220.5
Selling and administrative expenses	3,716.9	3,577.4
Operating income	584.8	534.3
Finance costs, net *(Note 21)*	50.8	59.9
Earnings before income taxes	534.0	474.4
Income taxes *(Note 12)*	140.1	122.3
Net earnings	$ 393.9	$ 352.1
Earnings for the year attributable to:		
Non-controlling interest	$ 9.1	$ 12.7
Owners of the parent	384.8	339.4
	$ 393.9	$ 352.1
Earnings per share *(Note 22)*		
Basic	$ 5.66	$ 4.99
Diluted	$ 5.65	$ 4.99
Weighted average number of common shares outstanding, in millions *(Note 22)*		
Basic	67.9	67.9
Diluted	68.1	68.0

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

52 Weeks Ended (in millions of Canadian dollars)	May 4, 2013	May 5, 2012
Net earnings	$ 393.9	$ 352.1
Other comprehensive income		
Unrealized gains (losses) on derivatives designated as cash flow hedges (net of income taxes of $(0.3) (2012 – $0.3))	0.5	(0.7)
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings (net of income taxes of $(0.5) (2012 – $(2.4)))	1.2	5.2
Unrealized gains on available for sale financial assets (net of income taxes of $(0.3) (2012 – $(0.1)))	1.3	0.6
Reclassification of (gains) losses on available for sale financial assets to earnings (net of income taxes of $0.6 (2012 – $nil))	(3.0)	0.1
Actuarial gains (losses) on defined benefit plans (net of income taxes of $(1.8) (2012 – $16.7)) *(Note 17)*	7.0	(48.6)
Share of other comprehensive income of investments, at equity (net of income taxes of $(0.7) (2012 – $(0.5)))	1.7	1.2
Exchange differences on translation of foreign operations	1.0	0.9
Total comprehensive income	$ 403.6	$ 310.8
Total comprehensive income for the year attributable to:		
Non-controlling interest	$ 9.1	$ 12.7
Owners of the parent	394.5	298.1
	$ 403.6	$ 310.8

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of Canadian dollars)	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Attributable to Parent	Non-Controlling Interest	Total Equity
Balance at May 7, 2011	$ 323.4	$ 4.7	$ (18.1)	$ 2,852.1	$ 3,162.1	$ 35.8	$ 3,197.9
Dividends	–	–	–	(61.2)	(61.2)	–	(61.2)
Employee share options	–	1.4	–	–	1.4	–	1.4
Redemption of capital stock	(4.1)	–	–	–	(4.1)	–	(4.1)
Capital transactions with special purpose entities	–	–	–	–	–	(13.4)	(13.4)
Transactions with owners	(4.1)	1.4	–	(61.2)	(63.9)	(13.4)	(77.3)
Net earnings	–	–	–	339.4	339.4	12.7	352.1
Other comprehensive income							
Unrealized losses on derivatives designated as cash flow hedges	–	–	(0.7)	–	(0.7)	–	(0.7)
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	–	–	5.2	–	5.2	–	5.2
Unrealized gains on available for sale financial assets	–	–	0.6	–	0.6	–	0.6
Reclassification of losses on available for sale financial assets to earnings	–	–	0.1	–	0.1	–	0.1
Actuarial losses on defined benefit plans	–	–	–	(48.6)	(48.6)	–	(48.6)
Share of other comprehensive income of investments, at equity	–	–	1.2	–	1.2	–	1.2
Exchange differences on translation of foreign operations	–	–	0.9	–	0.9	–	0.9
Total comprehensive income for the year	–	–	7.3	290.8	298.1	12.7	310.8
Balance at May 5, 2012	$ 319.3	$ 6.1	$ (10.8)	$ 3,081.7	$ 3,396.3	$ 35.1	$ 3,431.4
Dividends	–	–	–	(65.2)	(65.2)	–	(65.2)
Employee share options	–	0.6	–	–	0.6	–	0.6
Capital transactions with special purpose entities	–	–	–	–	–	(12.9)	(12.9)
Transactions with owners	–	0.6	–	(65.2)	(64.6)	(12.9)	(77.5)
Net earnings	–	–	–	384.8	384.8	9.1	393.9
Other comprehensive income							
Unrealized gains on derivatives designated as cash flow hedges	–	–	0.5	–	0.5	–	0.5
Reclassification of losses on derivative instruments designated as cash flow hedges to earnings	–	–	1.2	–	1.2	–	1.2
Unrealized gains on available for sale financial assets	–	–	1.3	–	1.3	–	1.3
Reclassification of gains on available for sale financial assets to earnings	–	–	(3.0)	–	(3.0)	–	(3.0)
Actuarial gains on defined benefit plans	–	–	–	7.0	7.0	–	7.0
Share of other comprehensive income of investments, at equity	–	–	1.7	–	1.7	–	1.7
Exchange differences on translation of foreign operations	–	–	1.0	–	1.0	–	1.0
Total comprehensive income for the year	–	–	2.7	391.8	394.5	9.1	403.6
Balance at May 4, 2013	$ 319.3	$ 6.7	$ (8.1)	$ 3,408.3	$ 3,726.2	$ 31.3	$ 3,757.5

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 Weeks Ended (in millions of Canadian dollars)	May 4, 2013	May 5, 2012
Operations		
Net earnings	$ 393.9	$ 352.1
Adjustments for:		
Depreciation	314.8	304.1
Income taxes	140.1	122.3
Finance costs, net *(Note 21)*	50.8	59.9
Amortization of intangibles	44.5	38.2
Gain on disposal of assets *(Note 19)*	(47.2)	(32.6)
Impairment of non-financial assets *(Note 8, 9 and 10)*	6.9	5.2
Amortization of deferred items	0.9	1.1
Equity in earnings of other entities, net of dividends received	37.8	(1.6)
Employee future benefits obligation	2.7	3.4
Increase in long-term lease obligation	4.2	3.3
(Decrease) increase in long-term provisions	(8.0)	2.8
Stock-based compensation	0.6	1.4
Net change in non-cash working capital	(67.4)	86.2
Income taxes paid, net	(86.5)	(131.1)
Dividends paid, preferred shares	–	(0.1)
Cash flows from operating activities	788.1	814.6
Investment		
Net increase in investments	(150.4)	(87.1)
Property, equipment and investment property purchases	(531.9)	(602.7)
Proceeds on disposal of property, equipment and investment property	181.1	196.0
Additions to intangibles	(12.3)	(15.9)
Loans and other receivables	(19.1)	22.5
Other assets and other long-term liabilities	5.1	(23.8)
Business acquisitions *(Note 23)*	(17.9)	(247.7)
Interest received	3.0	3.8
Non-controlling interest	(12.9)	(13.4)
Cash flows used in investing activities	(555.3)	(768.3)
Financing		
Increase in bank indebtedness	1.6	4.4
Issue of long-term debt	133.7	102.6
Repayment of long-term debt	(303.0)	(133.3)
Redemption of preferred shares	–	(4.1)
Interest paid	(54.9)	(60.5)
Dividends paid, common shares	(65.2)	(61.1)
Cash flows used in financing activities	(287.8)	(152.0)
Decrease in cash and cash equivalents	(55.0)	(105.7)
Cash and cash equivalents, beginning of year	510.2	615.9
Cash and cash equivalents, end of year	$ 455.2	$ 510.2

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

May 4, 2013
(in millions of Canadian dollars, except per share amounts)

1. REPORTING ENTITY

Empire Company Limited ("Empire" or the "Company") is a diversified Canadian company whose key businesses include food retailing and corporate investment activities. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The consolidated financial statements for the year ended May 4, 2013 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered special purpose entities ("SPEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and investments in significant joint ventures are accounted for using the equity method. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

2. BASIS OF PREPARATION

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on June 27, 2013.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through profit and loss, financial instruments classified as available for sale, and stock based compensation plans.

Use of estimates and judgments

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

The Company has applied judgment in its assessment of the appropriateness of consolidation of SPEs, the appropriateness of equity accounting for its investments in associates and joint ventures, the classification of leases and financial instruments, the level of componentization of property and equipment, the determination of cash generating units, the identification of indicators of impairment for property and equipment, investment property and intangible assets, the allocation of purchase price adjustments on business combinations, and the recognition of provisions.

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

(a) Inventories

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

(b) Impairment

Management assesses impairment of non-financial assets such as goodwill, intangible assets, property and equipment, and investment property. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows. When measuring expected future cash flows, management makes assumptions about future growth of profits which relate to future events and circumstances. Actual results could vary from these estimated future cash flows. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Impairment losses and reversals are disclosed in the consolidated financial statements in Notes 8, 9, 10, and 11.

(c) Employee future benefits

Accounting for the costs of defined benefit pension plans and other post-employment benefits requires the use of a number of assumptions. Pension obligations are based on current market conditions and actuarial determined data such as medical cost trends, mortality rates, and future salary increases. Estimates are also made for the expected return on plan assets which are based on current market conditions, the asset portfolio mix, the active management of plan assets and historical returns. A sensitivity analysis and more detail of key assumptions used in measuring the pension obligation and post-employment benefit obligations are disclosed in Note 17.

(d) Income taxes

Assumptions are applied when management assesses the timing and reversal of temporary differences and estimates the Company's future earnings to determine the recognition of current and deferred income taxes. Judgments are also made by management when interpreting the tax rules in jurisdictions where the Company operates. Note 12 details the current and deferred income taxes and deferred tax assets and liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The financial statements for the Company include the accounts of the Company and all of its subsidiary undertakings drawn up to the reporting date. Subsidiaries, including SPEs, are all entities over which the Company has the power to control the financial and operating policies so as to benefit from its activities. All subsidiaries have a reporting date within five weeks of the Company's reporting date. Where necessary, adjustments have been made to reflect transactions between the reporting dates of the Company and its subsidiaries.

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

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

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

(b) Business combinations

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

In measuring the fair value of an acquiree's assets and liabilities management uses estimates about future cash flows and discount rates. Any measurement changes upon initial recognition would affect the measurement of goodwill, except for deferred taxes.

(c) Foreign currency translation

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

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

(d) Cash and cash equivalents

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

(e) Inventories

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

(f) Income taxes

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

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

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

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

(g) Assets held for sale

Certain land and buildings have been listed for sale and reclassified as assets held for sale on the consolidated balance sheets. These assets are expected to be sold within a twelve month period and are no longer productive assets with no intent to develop them for future use. Assets held for sale are valued at the lower of carrying amount and fair value less cost of disposal. Liabilities assumed upon sale of assets or debts to be repaid as part of a sale transaction are also classified as liabilities relating to assets held for sale.

(h) Investments in associates

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

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

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

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

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

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

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

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

(i) Investments in joint ventures

The Company undertakes some business activities through joint ventures. Joint ventures are established through contractual arrangements that require the unanimous consent of each of the venturers regarding the strategic, financial and operating policies of the venture (joint control).

The Company's joint venture is classified as a jointly controlled entity:

A jointly controlled entity is a corporation, partnership or other entity in which each participant holds an interest. A jointly controlled entity operates in the same way as other entities, controlling the assets of the joint venture, generating its own earnings and incurring its own liabilities and expenses.

Interests in jointly controlled entities are accounted for using the equity method. Under the equity method, the investment in a jointly controlled entity is carried in the consolidated balance sheets at cost, plus post-acquisition changes in the Company's share of net assets of the jointly controlled entity, less distributions received and less any impairment in value of the investment. The share of jointly controlled entities' results is recognized in the Company's consolidated financial statements from the date that joint control commences until the date at which it ceases.

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

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

(j) Financial instruments

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

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

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

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

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

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

Fair value measurements are classified within a hierarchy that prioritizes the inputs to fair value measurement. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are: level 1 – inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities; level 2 – inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; or level 3 – inputs that are not based on observable market data. Inputs into the determination of the fair value require management judgment or estimation.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes to valuation methods may result in transfers into or out of an investment's assigned level.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

(k) Hedges

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

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

Significant derivatives include the following:

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

(2) Interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's debt portfolio. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates. Accordingly, the effective portion of the change in the fair value of the contracts are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.

(l) Property and equipment

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

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

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

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

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

Depreciation has been included within selling and administrative expenses in the consolidated statements of earnings. Material residual value estimates and estimates of useful life are reviewed and updated as required, or annually at a minimum.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings or loss within other income. If the sale is to a Company's investment, at equity, a portion of the gain would reduce the carrying value of the investment.

(m) Investment property

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

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

(n) Leases

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

(i) The Company as lessor

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

(ii) The Company as lessee

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

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

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

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

(iii) Sale and leaseback transactions

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

(o) Intangibles

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

Deferred purchase agreements	5 – 10 years
Franchise rights/agreements	10 years
Lease rights	5 – 10 years
Patient files	15 years
Software	3 – 7 years
Other	5 – 10 years

Amortization has been included within selling and administrative expenses in the consolidated statements of earnings. Included in intangibles are brand names, loyalty programs, and private labels, the majority of which have indefinite useful lives. Subsequent expenditures made by the Company relating to intangible assets that do not meet the capitalization criteria are expensed in the period incurred.

(p) Goodwill

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

(q) Impairment of non-financial assets

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

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

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

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

(r) Customer loyalty programs

A Club Sobeys loyalty card program (the "Program") was launched during fiscal 2009. The Program allows members to earn points on their purchases in certain Sobeys stores. As well, a Club Sobeys credit card entitles the customer to earn points for their purchases on the credit card. Members can redeem these points, in accordance with the Program rewards schedule, for discounts on future grocery purchases, purchase products or services, or elect to convert the points into Aeroplan miles which is a loyalty program run by a third party. During fiscal 2010, a loyalty card program, Club Thrifty Foods, was launched. It follows a similar point earning and redemption structure as the Club Sobeys loyalty card program. The fair value of loyalty points awarded is accounted for as a separate element of the sales transaction and recognition of revenue is deferred until the awards are

redeemed after adjustment for the number of points expected never to be redeemed based on the expected future activity. Fair value is determined by reference to the value for which the points can be redeemed. The program deferred revenue is included in accounts payable and accrued liabilities on the Company's consolidated balance sheets.

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

(s) Provisions

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

(t) Borrowing costs

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

(u) Deferred revenue

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

(v) Employee benefits

(i) Short-term employment benefits

Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short-term employee benefits are measured on an undiscounted basis and are recorded as selling and administrative expenses as the related service is provided.

(ii) Post-employment benefits

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

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

The impact of plan amendments is recognized as an expense and amortized on a straight-line basis over the average period until the benefits are vested. To the extent that increases in the obligation related to past service have vested immediately following the changes in the original plan, the Company recognizes past service cost immediately.

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

(iii) Termination benefits

When the Company has committed to a formalized plan to either terminate employment prior to normal retirement or to provide termination benefits as a result of offers made from the rationalization of business processes, termination benefits are recognized as an expense.

(w) Revenue recognition

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

(x) Vendor allowances

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

(y) Interest and dividend income

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

(z) Earnings per share

Basic earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive effect of employee stock options.

(aa) Stock-based compensation

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

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

(bb) Accounting standards and policies adopted during fiscal 2013

(i) Financial instruments: disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments became effective in the Company's first quarter of fiscal 2013. No new disclosures were required for these consolidated financial statements as a result of implementing these amendments.

(ii) Deferred tax: recovery of underlying assets

In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments became effective in the Company's first quarter of fiscal 2013. These amendments did not impact the Company as its investment properties are not measured at fair value.

(cc) Future accounting policies

(i) Financial instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) Consolidated financial statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely and is effective for annual periods beginning on or after January 1, 2013. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SPE's, and does not expect it to have a significant impact.

(iii) Joint arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, the IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled and is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

(iv) Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. It is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard will result in additional financial statement note disclosures relating to the Company's investments in associates and joint ventures.

(v) Fair value measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013.

(vi) Employee benefits

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The preliminary expected impact of the changes to this standard for the 52 weeks ended May 4, 2013 are a reduction in pre-tax earnings of $7.1 and a pre-tax increase to other comprehensive income of $6.4.

(vii) Presentation of financial statements

In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments are effective for annual periods beginning on or after January 1, 2013.

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

4. INVENTORIES

The cost of inventories recognized as an expense during the year was $13,350.1 (2012 – $12,159.7). The Company has recorded during the year $8.6 (2012 – $13.1) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 4, 2013. There were no reversals of inventories written down previously (2012 – $nil).

5. LOANS AND OTHER RECEIVABLES

	May 4, 2013	May 5, 2012
Loans and mortgages receivable	$ 60.3	$ 70.5
Notes receivable and other	59.7	31.1
	120.0	101.6
Less amount due within one year	66.2	41.0
	$ 53.8	$ 60.6

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

Loans receivable from officers and employees of $2.6 (2012 – $2.7) under the Company's share purchase plan are classified as notes receivable and other. Loan repayments will result in a corresponding decrease in notes receivable and other. The loans are non-interest bearing and non-recourse, secured by 96,489 (2012 – 96,489) Non-Voting Class A shares. The market value of the shares at May 4, 2013 was $6.6 (2012 – $5.5).

6. INVESTMENTS, AT EQUITY

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

	May 4, 2013	May 5, 2012
Investment in associates		
Crombie Real Estate Investment Trust ("Crombie REIT")	$ 195.2	$ 167.4
Canadian real estate partnerships	136.0	99.7
U.S. real estate partnerships	67.2	39.1
Investment in joint ventures		
Canadian Digital Cinema Partnership *(Note 23)*	9.2	7.2
Total	$ 407.6	$ 313.4

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

	May 4, 2013	May 5, 2012
Crombie REIT	$ 622.7	$ 520.7

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

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

	May 4, 2013	May 5, 2012
Balance, beginning of year	$ 167.4	$ 91.0
Equity earnings	13.7	19.7
Share of other comprehensive income	2.4	1.8
Distributions	(33.4)	(28.2)
Deferral of gains on sale of property	(11.4)	(10.3)
Interest acquired in Crombie REIT	38.3	83.0
Dilution gain *(Note 19)*	18.2	10.4
Balance, end of year	$ 195.2	$ 167.4

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

	May 4, 2013	May 5, 2012
Balance, beginning of year	$ 99.7	$ 88.0
Equity earnings	23.5	28.9
Distributions	(34.6)	(18.3)
Investment	45.8	1.1
Deferral of gains on sale of property to Sobeys	1.6	–
Balance, end of year	$ 136.0	$ 99.7

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

	May 4, 2013	May 5, 2012
Balance, beginning of year	$ 39.1	$ 33.1
Equity earnings	6.1	1.1
Distributions	(13.8)	(1.2)
Foreign currency translation adjustment	1.0	0.9
Investment	34.8	5.2
Balance, end of year	$ 67.2	$ 39.1

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

	May 4, 2013	May 5, 2012
Balance, beginning of year	$ 7.2	$ –
Transfer of equipment	–	7.7
Equity earnings	0.7	(0.4)
Share of other comprehensive income	(0.1)	(0.1)
Investment	1.4	–
Balance, end of year	$ 9.2	$ 7.2

The aggregate amounts of the investments, at equity can be summarized as follows:

Investment in Associates

	May 4, 2013	May 5, 2012
Assets		
Current	$ 504.9	$ 454.3
Non-current	2,268.1	1,720.3
Liabilities		
Current	$ 225.3	$ 156.6
Non-current	1,418.8	1,045.4

	May 4, 2013	May 5, 2012
Revenues	$ 450.6	$ 388.0
Expenses	331.7	278.2
Earnings before income taxes	$ 118.9	$ 109.8
Earnings attributable to the Company	$ 43.3	$ 49.7

Investment in Joint Ventures

	May 4, 2013	May 5, 2012
Assets		
Current	$ 6.4	$ 5.5
Non-current	100.1	89.5
Liabilities		
Current	$ 2.2	$ 9.5
Non-current	66.3	51.7

	May 4, 2013	May 5, 2012
Revenues	$ 22.3	$ 10.5
Expenses	19.2	12.5
Earnings before income taxes	$ 3.1	$ (2.0)
Earnings attributable to the Company	$ 0.7	$ (0.4)

7. OTHER ASSETS

	May 4, 2013	May 5, 2012
Asset-backed commercial paper	$ 24.8	$ 23.8
Restricted cash	2.1	23.0
Deferred lease assets	11.0	9.8
Other	12.6	11.9
Total	$ 50.5	$ 68.5

8. PROPERTY AND EQUIPMENT

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

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

May 5, 2012	Food Retailing Segment					
	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 318.7	$ 932.7	$ 2,182.2	$ 494.4	$ 185.9	$ 4,113.9
Additions	27.4	49.8	124.3	25.7	311.2	538.4
Additions from business acquisitions	88.9	35.3	17.4	1.6	–	143.2
Transfers	(13.6)	13.2	71.4	27.4	(125.2)	(26.8)
Disposals	(18.5)	(58.1)	(389.3)	(91.0)	(29.9)	(586.8)
Closing balance	$ 402.9	$ 972.9	$ 2,006.0	$ 458.1	$ 342.0	$ 4,181.9
Accumulated depreciation and impairment losses						
Opening balance	$ –	$ 276.8	$ 1,312.2	$ 270.5	$ –	$ 1,859.5
Disposals	–	(31.4)	(375.6)	(88.4)	–	(495.4)
Depreciation	–	35.4	207.2	45.6	–	288.2
Impairment losses	–	–	1.8	0.7	–	2.5
Closing balance	$ –	$ 280.8	$ 1,145.6	$ 228.4	$ –	$ 1,654.8
Net carrying value as at May 5, 2012	$ 402.9	$ 692.1	$ 860.4	$ 229.7	$ 342.0	$ 2,527.1

May 5, 2012	Investments and Other Operations Segment						
	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Petroleum and Natural Gas	Total
Cost							
Opening balance	$ 6.9	$ 50.5	$ 91.5	$ 90.9	$ 4.7	$ 66.3	$ 310.8
Additions	–	1.3	12.2	14.5	16.1	4.2	48.3
Additions from business acquisitions	–	–	1.1	3.6	–	–	4.7
Transfers	–	–	–	–	(5.9)	–	(5.9)
Disposals	(0.2)	–	(9.7)	–	(13.8)	–	(23.7)
Closing balance	$ 6.7	$ 51.8	$ 95.1	$ 109.0	$ 1.1	$ 70.5	$ 334.2
Accumulated depreciation and impairment losses							
Opening balance	$ –	$ 22.0	$ 58.6	$ 38.0	$ –	$ 48.5	$ 167.1
Disposals	–	–	(1.0)	–	–	–	(1.0)
Depreciation	–	2.2	5.1	4.9	–	3.0	15.2
Impairment losses	–	–	0.9	0.1	–	1.1	2.1
Impairment reversals	–	(0.1)	(1.1)	(0.1)	–	–	(1.3)
Closing balance	$ –	$ 24.1	$ 62.5	$ 42.9	$ –	$ 52.6	$ 182.1
Net carrying value as at May 5, 2012	$ 6.7	$ 27.7	$ 32.6	$ 66.1	$ 1.1	$ 17.9	$ 152.1
Consolidated property and equipment							
Net carrying value as at May 4, 2013	**$ 423.4**	**$ 750.3**	**$ 1,020.9**	**$ 312.6**	**$ 195.8**	**$ –**	**$ 2,703.0**
Net carrying value as at May 5, 2012	$ 409.6	$ 719.8	$ 893.0	$ 295.8	$ 343.1	$ 17.9	$ 2,679.2

Finance leases

The Company has various property leases for store locations that are held under finance leases with a net carrying value of $4.3 as at May 4, 2013 (2012 – $4.6). These leases are included in buildings.

The Company has equipment leases under finance leases with a net carrying value of $22.1 as at May 4, 2013 (2012 – $30.3). These leases are included in equipment.

Assets under construction

During the year the Company capitalized borrowing costs of $6.0 (2012 – $6.1) on indebtedness related to property and equipment under construction. The Company used capitalization rates from 3.5% to 6.0% (2012 – 5.8% to 7.0%).

Security

As at May 4, 2013 the net carrying value of property pledged as security for borrowings is $111.3 (2012 – $113.7).

Impairment of property and equipment

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

Recoverable amounts are based on value in use calculations, determined using three year cash flow projections from the Company's latest internal forecasts as presented to the Board of Directors. Key assumptions used in determining value in use include those regarding discount rates, growth rates, and expected changes in cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the cash generating units.

Forecasts are projected beyond three years based on long-term growth rates ranging from 3.0 to 5.0 percent. Discount rates are calculated on a pre-tax basis and range from 8.0 to 15.0 percent.

Impairment losses arise when the carrying amount of the assets is higher than the greater of the present value of cash flows of a cash generating unit and its fair value less costs to sell. Impairment losses of $10.0 were recorded in the year ended May 4, 2013 (2012 – $4.6).

Impairment reversals of $3.5 were recorded in the year ended May 4, 2013 (2012 – $1.3).

9. INVESTMENT PROPERTY

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

	May 4, 2013	May 5, 2012
Cost		
Opening balance	$ 102.2	$ 90.2
Additions	10.7	13.8
Transfers	4.6	18.7
Assets held for sale	(4.0)	(1.2)
Disposals	(1.4)	(19.3)
Closing balance	$ 112.1	$ 102.2
Accumulated depreciation and impairment losses		
Opening balance	$ 15.3	$ 16.4
Depreciation	0.6	0.7
Impairment losses	0.4	–
Disposals	(1.1)	(1.8)
Closing balance	$ 15.2	$ 15.3
Net carrying value	$ 96.9	$ 86.9
Fair value	$ 136.9	$ 131.0

An external, independent valuation company, having appropriate recognized professional qualifications and experience assisted in determining the fair value of investment property at May 4, 2013 and at May 5, 2012. Additions to investment property through acquisition are transacted at fair value and therefore carrying value equals fair value. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information, internal valuation methodologies, or the use of an external independent valuation company.

Rental income from investment property included in the consolidated statements of earnings amounted to $3.8 for the year ended May 4, 2013 (2012 – $4.1).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to $2.2 for the year ended May 4, 2013 (2012 – $1.5). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to $1.4 for the year ended May 4, 2013 (2012 – $1.7). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of earnings.

Impairment of investment property follows the same methodology as property and equipment (Note 8). For the year ended May 4, 2013 impairment losses of $0.4 (2012 – $nil) and reversals of $nil (2012 – $nil) were recorded.

10. INTANGIBLES

May 4, 2013	Brand Names	Deferred Purchase Agreements	Franchise Rights/ Agreements	Patient Files	Software	Lease Rights	Loyalty Programs	Private Labels	Other	Total
Cost										
Opening balance	$ 201.0	$ 89.9	$ 58.8	$ 32.8	$ 119.8	$ 49.7	$ 11.4	$ 59.5	$ 25.2	$ 648.1
Additions, separately acquired	–	13.2	–	–	0.2	0.8	–	–	1.5	15.7
Additions from business acquisitions	–	–	–	0.2	–	–	–	–	–	0.2
Transfers	–	–	–	–	60.8	–	–	–	–	60.8
Disposals	–	(5.5)	(4.5)	–	–	(1.8)	–	–	(0.7)	(12.5)
Closing balance	$ 201.0	$ 97.6	$ 54.3	$ 33.0	$ 180.8	$ 48.7	$ 11.4	$ 59.5	$ 26.0	$ 712.3
Accumulated amortization and impairment losses										
Opening balance	$ 14.2	$ 25.5	$ 29.4	$ 18.0	$ 63.6	$ 22.8	$ –	$ –	$ 12.8	$ 186.3
Amortization	3.0	9.8	5.2	2.0	19.7	3.1	–	–	1.7	44.5
Disposals	–	(4.4)	(2.7)	–	–	(1.4)	–	–	(0.5)	(9.0)
Closing balance	$ 17.2	$ 30.9	$ 31.9	$ 20.0	$ 83.3	$ 24.5	$ –	$ –	$ 14.0	$ 221.8
Net carrying value as at May 4, 2013	$ 183.8	$ 66.7	$ 22.4	$ 13.0	$ 97.5	$ 24.2	$ 11.4	$ 59.5	$ 12.0	$ 490.5

May 5, 2012	Brand Names	Deferred Purchase Agreements	Franchise Rights/ Agreements	Patient Files	Software	Lease Rights	Loyalty Programs	Private Labels	Other	Total
Cost										
Opening balance	$ 201.0	$ 62.2	$ 58.1	$ 32.3	$ 105.1	$ 49.1	$ 11.4	$ 59.5	$ 29.5	$ 608.2
Additions, separately acquired	–	7.8	–	–	0.1	0.6	–	–	1.5	10.0
Additions, internally developed	–	–	–	–	6.7	–	–	–	–	6.7
Additions from business acquisitions	–	20.7	0.8	0.6	–	–	–	–	1.6	23.7
Transfers	–	–	–	–	13.2	–	–	–	–	13.2
Disposals	–	(0.8)	(0.1)	(0.1)	(5.3)	–	–	–	(7.4)	(13.7)
Closing balance	$ 201.0	$ 89.9	$ 58.8	$ 32.8	$ 119.8	$ 49.7	$ 11.4	$ 59.5	$ 25.2	$ 648.1
Accumulated amortization and impairment losses										
Opening balance	$ 11.2	$ 19.6	$ 23.2	$ 14.0	$ 53.7	$ 19.8	$ –	$ –	$ 17.5	$ 159.0
Amortization	3.0	6.7	6.3	2.2	15.2	3.0	–	–	1.8	38.2
Impairment losses	–	–	–	1.9	–	–	–	–	–	1.9
Disposals	–	(0.8)	(0.1)	(0.1)	(5.3)	–	–	–	(6.5)	(12.8)
Closing balance	$ 14.2	$ 25.5	$ 29.4	$ 18.0	$ 63.6	$ 22.8	$ –	$ –	$ 12.8	$ 186.3
Net carrying value as at May 5, 2012	$ 186.8	$ 64.4	$ 29.4	$ 14.8	$ 56.2	$ 26.9	$ 11.4	$ 59.5	$ 12.4	$ 461.8

In addition to development costs capitalized related to software, the Company included in selling and administrative expenses $6.7 of research and development costs (2012 – $4.7).

Impairment of intangibles follows the same methodology as property and equipment (Note 8). For the year ended May 4, 2013 impairment losses of $nil (2012 – $1.9) and reversals of $nil (2012 – $nil) were recorded.

Included in intangibles as at May 4, 2013, and May 5, 2012 are the following amounts with indefinite useful lives: Brand names – $172.8; Loyalty programs $11.4; and Private labels $59.5 all of which relate to the food retailing segment. Impairment of these intangibles is assessed annually on the same basis as goodwill as noted in Note 11 below.

11. GOODWILL

	May 4, 2013	May 5, 2012
Opening balance	$ 1,302.1	$ 1,220.0
Additions from business acquisitions	8.3	82.1
Closing balance	$ 1,310.4	$ 1,302.1

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

	May 4, 2013	May 5, 2012
Food retailing	$ 1,268.7	$ 1,260.9
Investments and other operations	41.7	41.2
Total	$ 1,310.4	$ 1,302.1

Impairment of goodwill

Goodwill is subject to impairment testing on an annual basis. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. The Company performs an annual review during its first quarter and no impairment was recorded (2012 – $nil). In performing the review, the Company determined the recoverable amount of goodwill based on fair value less any costs that would be incurred should the Company sell a cash generating unit to which goodwill would be apportioned from the operating segment. The key assumption used by management to determine the fair value of the cash generating unit includes industry earnings multiples in a range from 7.0 to 12.5.

12. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

	May 4, 2013	May 5, 2012
Earnings before income taxes	$ 534.0	$ 474.4
Effective combined statutory income tax rate	26.9%	27.6%
Income tax expense according to combined statutory income tax rate	143.7	130.9
Income taxes resulting from:		
Non-deductible items	1.3	1.2
Capital items	(3.1)	(3.2)
Non-taxable items	(1.2)	(0.5)
Change in tax rates	1.2	–
Other	(1.8)	(6.1)
Total income taxes, combined effective tax rate of 26.2% (2012 – 25.8%)	$ 140.1	$ 122.3

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

	May 4, 2013	May 5, 2012
Current tax expense	$ 156.8	$ 102.0
Deferred tax expense:		
Origination and reversal of temporary differences	(17.9)	20.3
Change in tax rates	1.2	–
Total	$ 140.1	$ 122.3

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

		Recognized in:		
May 4, 2013	Opening Balance	Other Comprehensive Income	Net Earnings	Closing Balance
Accounts payable and accrued liabilities	$ 3.8	$ –	$ (0.6)	$ 3.2
Goodwill and intangibles	(100.0)	–	(2.0)	(102.0)
Inventory	3.6	–	(1.4)	2.2
Investments	(18.9)	(0.3)	(10.4)	(29.6)
Long-term debt	3.8	–	3.5	7.3
Other assets	4.4	–	(4.4)	–
Other long-term liabilities	76.9	(2.7)	3.8	78.0
Property, equipment and investment property	(66.1)	–	(12.9)	(79.0)
Provisions	21.6	–	0.9	22.5
Partnership deferral reserve	(87.2)	–	43.5	(43.7)
Losses	1.5	–	2.3	3.8
Other	3.1	–	(4.4)	(1.3)
	$ (153.5)	$ (3.0)	$ 17.9	$ (138.6)
Recognized as:				
Deferred tax assets	$ 36.5	$ –	$ 5.5	$ 42.0
Deferred tax liabilities	$ (190.0)	$ (3.0)	$ 12.4	$ (180.6)

		Recognized in:		
May 5, 2012	Opening Balance	Other Comprehensive Income	Net Earnings	Closing Balance
Accounts payable and accrued liabilities	$ 5.1	$ –	$ (1.3)	$ 3.8
Goodwill and intangibles	(97.4)	–	(2.6)	(100.0)
Inventory	4.1	–	(0.5)	3.6
Investments	(16.1)	(0.6)	(2.2)	(18.9)
Long-term debt	0.4	–	3.4	3.8
Other assets	4.3	–	0.1	4.4
Other long-term liabilities	66.4	14.6	(4.1)	76.9
Property, equipment and investment property	(74.0)	–	7.9	(66.1)
Provisions	14.8	–	6.8	21.6
Partnership deferral reserve	(63.1)	–	(24.1)	(87.2)
Losses	2.8	–	(1.3)	1.5
Other	5.5	–	(2.4)	3.1
	$ (147.2)	$ 14.0	$ (20.3)	$ (153.5)
Recognized as:				
Deferred tax assets	$ 29.8	$ –	$ 6.7	$ 36.5
Deferred tax liabilities	$ (177.0)	$ 14.0	$ (27.0)	$ (190.0)

All deferred tax assets (including tax losses and other tax credits) have been recognized in the consolidated balance sheets. The amount of deferred tax assets and deferred tax liabilities that are expected to be settled beyond the next 12 months is $117.5.

13. BANK INDEBTEDNESS

As security for certain bank loans, the Company has provided an assignment of certain marketable securities and, in certain subsidiaries and joint ventures, general assignments of receivables and leases, first floating charge debentures on assets and the assignment of proceeds of fire insurance policies. The interest rate at May 4, 2013 was 3.9% (2012 – 4.7%).

14. PROVISIONS

The provisions carrying amounts are comprised of the following:

May 4, 2013	Lease Contracts	Legal	Environmental	Other	Total
Opening balance	$ 32.3	$ 6.9	$ 30.9	$ 19.7	$ 89.8
Assumed in business combination	–	–	1.2	–	1.2
Provisions made	6.6	2.7	3.6	15.6	28.5
Provisions used	(10.3)	(2.6)	(0.5)	(17.5)	(30.9)
Provisions reversed	(3.8)	(1.4)	–	(3.0)	(8.2)
Change due to discounting	1.7	–	1.2	0.2	3.1
Closing balance	$ 26.5	$ 5.6	$ 36.4	$ 15.0	$ 83.5
Current	$ 7.8	$ 5.6	$ 3.1	$ 14.1	$ 30.6
Non–current	18.7	–	33.3	0.9	52.9
Total	$ 26.5	$ 5.6	$ 36.4	$ 15.0	$ 83.5

May 5, 2012	Lease Contracts	Legal	Environmental	Other	Total
Opening balance	$ 32.9	$ 7.1	$ 5.4	$ 18.8	$ 64.2
Assumed in business combination	0.8	–	21.8	–	22.6
Provisions made	16.4	3.5	5.1	11.5	36.5
Provisions used	(10.5)	(3.0)	(0.3)	(10.4)	(24.2)
Provisions reversed	(9.3)	(0.7)	(2.0)	(0.4)	(12.4)
Change due to discounting	2.0	–	0.9	0.2	3.1
Closing balance	$ 32.3	$ 6.9	$ 30.9	$ 19.7	$ 89.8
Current	$ 12.5	$ 6.9	$ 0.9	$ 9.8	$ 30.1
Non-current	19.8	–	30.0	9.9	59.7
Total	$ 32.3	$ 6.9	$ 30.9	$ 19.7	$ 89.8

Lease contracts

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

Legal costs

Legal provisions relate to claims of $5.6 that are outstanding as at May 4, 2013 (2012 – $6.9) that arose in the ordinary course of business.

Environmental costs

In accordance with legal and environmental policy requirements the Company has recorded provisions for locations requiring environmental restoration. These provisions primarily relate to decommissioning liabilities recorded for gas station locations owned by the Company at the net present value of the estimated future remediation costs. Discounting of environmental related provisions has been calculated using pre-tax discount rates ranging between 4.0 and 15.0 percent.

Other costs

The Company continues to complete the rationalization of administration functions and has incurred costs associated with the development of a new distribution centre in Terrebonne, Québec. These provisions relate mainly to severance costs.

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

15. LONG-TERM DEBT

	May 4, 2013	May 5, 2012
First mortgage loans, weighted average interest rate 7.87%, due 2013 – 2021	$ 41.9	$ 44.4
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	100.0	100.0
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	175.0	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	125.0	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	150.0	150.0
Sinking fund debentures, weighted average interest rate 9.33%, due 2013 – 2016	28.3	31.4
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	125.9	133.6
Credit facility, due July 23, 2012, floating interest rate tied to bankers' acceptance rates	–	200.0
Credit facility, due June 30, 2015, floating interest rate tied to bankers' acceptance rates	181.0	129.0
	927.1	1,088.4
Unamortized transaction costs	(2.3)	(2.7)
Finance lease obligations, weighted average interest rate 5.84%, due 2013 – 2040	38.7	40.7
	963.5	1,126.4
Less amount due within one year	47.6	237.3
Balance, end of year	$ 915.9	$ 889.1

First mortgage loans are secured by land, buildings and specific charges on certain assets. Finance lease obligations are secured by the related finance lease asset. Medium term notes are unsecured.

Sobeys Group Inc., an indirect subsidiary of Sobeys, has provided its debenture holders with a floating charge over all its assets, subject to permitted encumbrances, a general assignment of book debts, and the assignment of proceeds of insurance policies.

Sinking fund debenture payments are required on an annual basis. The proportionate share of related debt is retired with these repayments.

On July 23, 2007, Sobeys established a new unsecured revolving term credit facility maturing July 23, 2012. Under the terms of the credit agreement entered into between Sobeys and a banking syndicate, a revolving term credit facility of $300.0 was established and increased by an additional $300.0, resulting in a total authorized credit facility of $600.0. On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of $450.0, and a $200.0 unsecured non-revolving term credit facility resulting in total authorized credit facilities of $650.0. The revolving term credit facility matures on February 14, 2017, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on the revolving term credit facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR"). Sobeys had also issued $80.6 in letters of credit against the facility at May 4, 2013 (2012 – $52.7).

On June 4, 2010, the Company renewed its credit facilities which were reduced from $650.0 to $450.0. On August 22, 2011, the Company extended the term of its credit facilities to a maturity date of June 30, 2014. On September 26, 2012, the Company further extended the term of its credit facilities to a maturity date of June 30, 2015. At May 4, 2013, the credit facilities had a balance outstanding of $181.0 (May 5, 2012 – $129.0). 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.

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

2014	$ 37.0
2015	41.0
2016	199.2
2017	10.0
2018	105.7
Thereafter	534.2

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
2014	$ 12.3	$ 1.7	$ 10.6
2015	8.0	1.2	6.8
2016	6.2	1.0	5.2
2017	6.1	0.7	5.4
2018	4.0	0.5	3.5
Thereafter	9.6	2.4	7.2
Total	$ 46.2	$ 7.5	$ 38.7

During fiscal 2013 the Company increased its finance lease obligation by $8.8 (2012 – $4.2) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

16. OTHER LONG-TERM LIABILITIES

	May 4, 2013	May 5, 2012
Deferred lease obligation	$ 104.0	$ 99.8
Accrued benefit liability *(Note 17)*	61.3	69.1
Employee future benefits *(Note 17)*	133.9	143.3
Deferred revenue	5.3	7.0
Other	3.5	5.4
Total	$ 308.0	$ 324.6

17. EMPLOYEE FUTURE BENEFITS

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

Defined contribution pension plans

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

Other benefit plans

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

Defined benefit pension plans

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

The Company uses April 30 as an actuarial valuation date and May 1 as a measurement date for accounting purposes, for its defined benefit pension plans.

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plan	May 1, 2011	May 1, 2014
Senior Management Pension Plan	May 1, 2011	May 1, 2014
Other Benefit Plans	May 1, 2012	May 1, 2015

Defined contribution plans

The total expense, and cash contributions, for the Company's defined contribution plans was $25.2 for the year ended May 4, 2013 (2012 – $25.3).

Defined benefit plans

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

	Pension Benefit Plans		Other Benefit Plans	
	May 4, 2013	May 5, 2012	**May 4, 2013**	May 5, 2012
Accrued benefit obligation				
Balance, beginning of year	**$ 301.0**	$ 268.4	**$ 143.3**	$ 122.3
Current service cost, net of employee contributions	**1.7**	1.7	**1.4**	1.8
Interest cost	**12.3**	13.6	**5.4**	6.3
Employee contributions	**0.1**	0.1	**–**	–
Benefits paid	**(22.4)**	(19.7)	**(4.3)**	(4.5)
Past service costs	**1.0**	–	**–**	–
Actuarial losses (gains) included in other comprehensive income	**16.9**	36.9	**(11.9)**	17.4
Balance, end of year	**$ 310.6**	$ 301.0	**$ 133.9**	$ 143.3
Plan assets				
Market value, beginning of year	**$ 230.9**	$ 234.4	**$ –**	$ –
Expected return on plan assets	**15.8**	16.1	**–**	–
Employer contributions	**9.6**	10.7	**4.3**	4.5
Employee contributions	**0.1**	0.1	**–**	–
Benefits paid	**(22.4)**	(19.7)	**(4.3)**	(4.5)
Actuarial gains (losses) included in other comprehensive income	**13.6**	(10.7)	**–**	–
Market value, end of year	**$ 247.6**	$ 230.9	$ –	$ –

	Pension Benefit Plans		Other Benefit Plans	
	May 4, 2013	May 5, 2012	**May 4, 2013**	May 5, 2012
Funded status				
Total market value of plan assets	**$ 247.6**	$ 230.9	$ –	$ –
Present value of unfunded obligations	**(46.1)**	(42.7)	**(133.9)**	(143.3)
Present value of partially funded obligations	**(264.5)**	(258.2)	**–**	–
Deficit	**(63.0)**	(70.0)	**(133.9)**	(143.3)
Unamortized past service cost	**1.7**	0.9	**–**	–
Accrued benefit liabilities	**$ (61.3)**	$ (69.1)	**$ (133.9)**	$ (143.3)

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

	Pension Benefit Plans		Other Benefit Plans	
	May 4, 2013	May 5, 2012	**May 4, 2013**	May 5, 2012
Expenses				
Current service cost, net of employee contributions	**$ 1.7**	$ 1.7	**$ 1.4**	$ 1.8
Interest cost	**12.3**	13.6	**5.4**	6.3
Expected return on plan assets	**(15.8)**	(16.1)	**–**	–
Acturial loss (gain) recognized	**–**	–	**0.1**	(0.4)
Past service costs	**0.3**	0.1	**–**	–
(Income) expense before adjustments	**$ (1.5)**	$ (0.7)	**$ 6.9**	$ 7.7

Current and past service costs have been recognized within selling and administrative expenses, whereas interest costs and expected return on plan assets have been recognized within finance costs, net in the consolidated statements of earnings.

Actuarial gains and losses recognized directly in equity:

Actuarial gain (losses) recognized directly in other comprehensive income	**May 4, 2013**	May 5, 2012
Cumulative amount, beginning of year	**$ (63.4)**	$ 1.9
Recognized during the year	**8.8**	(65.3)
Cumulative amount, end of year	**$ (54.6)**	$ (63.4)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average assumptions as of May 4, 2013):

	Pension Benefit Plans		Other Benefit Plans	
	May 4, 2013	May 5, 2012	**May 4, 2013**	May 5, 2012
Discount rate	**3.75%**	4.25%	**4.00%**	4.25%
Expected long-term rate of return on plan assets	**7.00%**	7.00%		
Rate of compensation increase	**4.00%**	4.00%		

For measurement purposes, an 8.00 percent fiscal 2013 annual rate of increase in the per capita cost of covered health care benefits was assumed (2012 – 8.50 percent). The cumulative rate expectation to 2019 is 5.00 percent.

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

Expected returns on plan assets is based on a weighted average of expected returns of the various assets in the plan and include an analysis of historical returns and predictions about future returns. The expected long-term rate of return is based on the portfolio as a whole and not the sum of the individual asset categories. Expected returns on plan assets are estimated by the independent actuaries in close co-ordination with plan administrators.

The table below outlines the sensitivity of the fiscal 2013 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligations or benefit plan expenses.

	Pension Benefit Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost[1]	Benefit Obligations	Benefit Cost[1]
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		$ (2.2)		
Impact of: 1% decrease		$ 2.2		
Discount rate[2]	3.75%	3.75%	4.00%	4.00%
Impact of: 1% increase	$ (35.6)	$ 0.9	$ (18.5)	$ 0.1
Impact of: 1% decrease	$ 40.3	$ (1.4)	$ 23.1	$ (0.1)
Growth rate of health care costs[3]			8.00%	8.00%
Impact of: 1% increase			$ 18.2	$ 1.0
Impact of: 1% decrease			$ (14.9)	$ (0.8)

(1) Reflects the impact on the current service cost, interest cost, and expected return on assets.

(2) 3.75 percent for the Senior Management Plan, Oshawa Sobeys Employee Pension Plan, and Post-Retirement Benefits and 3.50 percent for the Post-Employment Benefits Plan.

(3) Gradually decreasing to 5.00 percent in 2019 and remaining at that level thereafter.

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

	May 4, 2013	May 5, 2012
Debt securities, cash and cash equivalents	**25.0%**	25.0%
Equity securities	**75.0%**	75.0%
Total investments	**100.0%**	100.0%

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

	May 4, 2013	**% of Plan Assets**	May 5, 2012	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	**$ 102.8**	**8.6%**	$ 87.2	8.2%

The actual return on plan assets was $29.3 for the year ended May 4, 2013 (2012 – $5.4).

The historical movement and history of experience gains and losses in the defined benefit pension plans and other benefit plans are as follows:

	May 4, 2013	May 5, 2012
Market value of plan assets	**$ 247.6**	$ 230.9
Present value of accrued benefit obligations	**(444.5)**	(444.2)
Plan deficit	**$ (196.9)**	$ (213.3)
Experience adjustments arising on plan assets	**$ 13.6**	$ (10.7)
Experience adjustments arising on plan liabilities	**$ 15.8**	$ 0.6

Management's best estimate of contributions expected to be paid to the defined benefit plans during the annual period beginning on May 5, 2013 and ending on May 3, 2014 is $8.4.

18. CAPITAL STOCK

	Number of Shares	
Authorized	**May 4, 2013**	May 5, 2012
2002 Preferred shares, par value of $25 each, issuable in series	**991,980,000**	991,980,000
Non-Voting Class A shares, without par value	**257,044,056**	258,593,856
Class B common share, without par value, voting	**40,800,000**	40,800,000

Issued and outstanding	**Number of Shares**	**May 4, 2013**	May 5, 2012
Preferred shares, Series 2		**$ –**	$ –
Non-Voting Class A	**33,687,747**	**311.7**	311.7
Class B common	**34,260,763**	**7.6**	7.6
Total		**$ 319.3**	$ 319.3

The Series 2 Preferred shares were redeemable at par. During fiscal 2012, the Company redeemed all of its Preferred shares, Series 2 at a cost of $4.1.

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

During fiscal 2013, the Company paid preferred dividends of $nil (2012 – $0.1) and common dividends of $65.2 (2012 – $61.1) to its equity holders. This represents a payment of $0.42 per share in 2012 for preference share holders, and $0.96 per share (2012 – $0.90 per share) for common share holders.

19. OTHER INCOME

	May 4, 2013	May 5, 2012
Gain on disposal of assets	**$ 29.0**	$ 22.2
Dilution gains	**18.2**	10.4
Investment income	**9.6**	1.2
Total	**$ 56.8**	$ 33.8

20. EMPLOYEE BENEFITS EXPENSE

	May 4, 2013	May 5, 2012
Wages, salaries and other short-term employment benefits	**$ 2,012.5**	$ 1,946.4
Post-employment benefits	**28.7**	28.4
Termination benefits	**10.2**	5.9
Total	**$ 2,051.4**	$ 1,980.7

21. FINANCE COSTS, NET

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

	May 4, 2013	May 5, 2012
Finance income		
Interest income from cash and cash equivalents	$ 3.0	$ 3.8
Fair value gain on cash flow hedges	0.2	–
Fair value gains on other financial assets	1.6	1.1
Total finance income	4.8	4.9
Finance costs		
Interest expense on financial liabilities measured at amortized cost	51.2	53.4
Fair value losses on forward contracts	0.8	–
Losses on cash flow hedges reclassified from other comprehensive income	1.7	7.6
Net pension finance costs	1.9	3.8
Total finance costs	55.6	64.8
Finance costs, net	$ 50.8	$ 59.9

22. EARNINGS PER SHARE

Earnings applicable to common shares are comprised of the following:

	May 4, 2013	May 5, 2012
Net earnings	$ 384.8	$ 339.4
Preferred share dividend	–	(0.1)
Earnings applicable to common shares	$ 384.8	$ 339.3

Earnings per share is comprised of the following:

	May 4, 2013	May 5, 2012
Basic earnings per share	$ 5.66	$ 4.99
Diluted earnings per share	$ 5.65	$ 4.99

The weighted average number of outstanding shares as at May 4, 2013 used for basic earnings per share amounted to 67,948,510 (2012 – 67,948,510) shares.

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

	May 4, 2013	May 5, 2012
Weighted average number of shares used in basic earnings per share	67,948,510	67,948,510
Shares deemed to be issued for no consideration in respect of stock-based payments	134,746	111,477
Weighted average number of shares used in diluted earnings per share	68,083,256	68,059,987

23. BUSINESS ACQUISITIONS AND FORMATIONS

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

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

	May 4, 2013	May 5, 2012
Stores, retail gas locations and theatres		
Inventories	$ 1.7	$ 11.6
Property and equipment	10.1	147.9
Intangibles	–	23.1
Goodwill	8.3	82.1
Provisions	(1.2)	(22.6)
Other assets and liabilities	(1.2)	5.0
	$ 17.7	$ 247.1
Prescription files		
Intangibles	$ 0.2	$ 0.6
Cash consideration	$ 17.9	$ 247.7

The businesses acquired contributed sales of $33.8 and earnings of $1.9 for the year ended May 4, 2013.

Shell acquisition

During fiscal 2013, management finalized the purchase price allocation related to the March 2012 acquisition of 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. As a result, the consolidated balance sheet as at May 4, 2013 was adjusted by an increase to land of $1.7, a decrease to equipment of $3.4, and increase to provisions of $0.6, and goodwill increased $2.3.

Canadian Digital Cinema Partnership

During fiscal 2012, the Company formed Canadian Digital Cinema Partnership ("CDCP"), a joint venture with Cineplex Inc. ("Cineplex"). The costs of implementing digital projection systems in the venturers' theatres will be funded by CDCP, through a separate credit facility, which is non-recourse to the venturers, and the collection of virtual print fees from distributors.

Empire transferred digital projectors valued at $7.6 in exchange for a 21.8 percent interest in CDCP. Cineplex and Empire each have 50 percent of the voting rights of CDCP. Empire accounts for its investment in CDCP using the equity method.

The digital projection systems leased from CDCP will replace most of Empire's remaining 35 millimeter projection systems and allow Empire to add additional 3D screens to the circuit.

24. GUARANTEES, COMMITMENTS, AND CONTINGENT LIABILITIES

Guarantees

Franchise affiliates

Sobeys has a guarantee contract under the terms of which, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 or 9.9 percent (2012 – $7.0 or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 4, 2013, the amount of the guarantee was $7.0 (2012 – $7.0).

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

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of $6.0 or 10.0 percent (2012 – $6.0 or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SPEs. As at May 4, 2013 the amount of the guarantee was $6.0 (2012 – $6.0).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2014 is approximately $15.8. The guaranteed lease commitments over the next five fiscal years are:

	Third Parties
2014	$ 15.8
2015	0.5
2016	0.3
2017	–
2018	–
Thereafter	–

Other

At May 4, 2013, the Company was contingently liable for letters of credit issued in the aggregate amount of $97.8 (2012 – $69.6).

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys guaranteed to the landlord the performance, by SERCA Foodservice Inc., of all of its obligations under the lease. The remaining term of the lease is 7 years with an aggregate obligation of $22.6 (2012 – $25.6). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Operating leases, as lessee

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

The total net, future minimum rent payable under the Company's operating leases as of May 4, 2013 is approximately $2,748.9. This reflects a gross lease obligation of $3,730.1 reduced by expected sub-lease income of $981.2. The net commitments over the next five fiscal years are:

	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2014	$ 228.8	$ 338.6	$ 65.8	$ 65.8
2015	214.4	315.6	65.7	65.7
2016	198.6	293.6	64.8	64.8
2017	180.8	266.2	58.0	58.0
2018	163.3	237.1	57.2	57.2
Thereafter	888.1	1,404.1	563.4	563.4

The Company recorded $440.0 (2012 – $411.6) as an expense for minimum lease payments for the year ended May 4, 2013 in the consolidated statements of earnings. The expense was offset by sub-lease income of $129.9 (2012 – $118.3), and a further $9.2 (2012 – $4.5) of expense was recognized for contingent rent.

Operating leases, as lessor

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

Rental income for the year ended May 4, 2013 was $59.2 (2012 – $41.7) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized $1.0 of contingent rent for the year ended May 4, 2013 (2012 – $1.5).

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

	Third Parties
2014	$ 7.1
2015	5.9
2016	5.5
2017	5.2
2018	4.4
Thereafter	24.6

Contingent liabilities

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

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

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

25. FINANCIAL INSTRUMENTS

Credit risk

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

The Company's maximum exposure to credit risk corresponds to the carrying amount for all cash and cash equivalents, loans and receivables, the carrying value of asset-backed commercial paper (Note 7) and guarantee contracts for franchise affiliates (Note 24).

The Company mitigates credit risk associated with its trade receivables, mortgage and loans receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. The Company regularly monitors collection performance and pledged security for all of its receivables and loans and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building, as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with counterparties that are dual rated and have a credit rating of "A" or better to minimize credit risk.

Receivables are substantially comprised of balances due from independent accounts, franchisee or affiliate locations as well as rebates and allowances from vendors. The due date of these amounts can vary by agreement but in general balances over 30 days are considered past due. The aging of the receivables is as follows:

	May 4, 2013	May 5, 2012
0 – 30 days	$ 320.5	$ 315.4
31 – 90 days	36.3	28.7
Greater than 90 days	44.1	39.7
Total receivables before allowance for credit losses	400.9	383.8
Less: allowance for credit losses	(19.2)	(21.8)
Receivables	$ 381.7	$ 362.0

Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses in the consolidated statements of earnings. Receivables are all current as of May 4, 2013.

Allowance for credit losses is reviewed at each balance sheet date. An allowance is taken on receivables from independent accounts, as well as receivables, loans and other receivables from franchise or affiliate locations and is recorded as a reduction to its respective receivable account on the consolidated balance sheets. The Company updates its estimate for credit losses based on past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchise or affiliate locations. Current and long-term receivables, loans and other receivables are reviewed on a regular basis and are written-off when collection is considered unlikely. The change in allowance for credit losses is recorded as selling and administrative expenses in the consolidated statements of earnings and is presented as follows:

	May 4, 2013	May 5, 2012
Allowance, beginning of year	$ 21.8	$ 13.1
Provision for losses	2.7	14.4
Recoveries	(1.1)	(1.1)
Write-offs	(4.2)	(4.6)
Allowance, end of year	$ 19.2	$ 21.8

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

The Company monitors capital markets and the related conditions, and monitors its cash flows in order to assist in optimizing its cash position and evaluate longer term cash and funding requirements. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

The following table summarizes the amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 4, 2013:

	2014	2015	2016	2017	2018	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	$ 1.3	$ 1.3	$ 1.4	$ 1.5	$ 1.4	$ –	$ 6.9
Non-derivative financial liabilities							
Bank indebtedness	6.0	–	–	–	–	–	6.0
Accounts payable and accrued liabilities	1,765.8	–	–	–	–	–	1,765.8
Long-term debt	97.6	94.9	245.8	54.4	147.6	1,100.5	1,740.8
Total	$ 1,870.7	$ 96.2	$ 247.2	$ 55.9	$ 149.0	$ 1,100.5	$ 3,519.5

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle the financial assets and financial liabilities as at the reporting date.

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

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

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

The fair value of derivative financial liabilities are estimated using valuation models that utilize market based observable inputs.

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

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

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

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

May 5, 2012	FVTPL	Available for Sale	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
Financial Assets						
Cash and cash equivalents	$ –	$ –	$ 510.2	$ –	$ 510.2	$ 510.2
Receivables	–	–	362.0	–	362.0	362.0
Loans and other receivables	–	–	101.6	–	101.6	101.6
Investments	–	13.0	–	–	13.0	13.0
Other assets[1]	46.8	–	–	–	46.8	46.8
Total financial assets	$ 46.8	$ 13.0	$ 973.8	$ –	$ 1,033.6	$ 1,033.6
Fair value level 1	$ 23.0	$ –				$ 23.0
Fair value level 2	–	–				–
Fair value level 3	23.8	–				23.8
	$ 46.8	$ –				$ 46.8
Financial Liabilities						
Bank indebtedness	$ –	$ –	$ –	$ (4.4)	$ (4.4)	$ (4.4)
Accounts payable and accrued liabilities	–	–	–	(1,729.8)	(1,729.8)	(1,729.8)
Long-term debt	–	–	–	(1,126.4)	(1,126.4)	(1,209.7)
Derivative financial liabilities[2]	(2.8)	–	–	–	(2.8)	(2.8)
Total financial liabilities	$ (2.8)	$ –	$ –	$ (2,860.6)	$ (2,863.4)	$ (2,946.7)
Fair value level 1	$ –	$ –				$ –
Fair value level 2	(2.8)	–				(2.8)
Fair value level 3	–	–				–
	$ (2.8)	$ –				$ (2.8)

(1) The total carrying value of financial assets included in other assets is $46.8.

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

Derivative financial instruments

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

Cash flow hedges

The Company's cash flow hedges consists principally of interest rate swaps, foreign currency forward contracts, and foreign currency swaps. Interest rate swaps are used to protect against exposure to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Gains and losses are initially recognized directly in equity and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the year.

As of May 4, 2013, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of $nil (2012 – $nil) and liabilities of $0.2 (2012 – $2.8).

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

The gains and losses on ineffective portions of such derivatives are recognized immediately in net earnings for the year. During the year, the Company recognized $nil (2012 – $nil) directly into net earnings as a result of ineffective hedging contracts.

Interest rate risk

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

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The Company utilizes interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's long-term debt. Hedge accounting treatment resulted in interest expense on the related borrowings being reflected at hedged rates rather than at variable interest rates.

The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 31.4 percent (2012 – 22.9 percent) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the year. For the year ending May 4, 2013, the Company's average outstanding unhedged floating rate debt was $312.6 (2012 – $241.1). An increase (decrease) of 25 basis points would have impacted net earnings by $0.5 ($0.5) (2012 – $0.4 ($0.4)) and other comprehensive income by $nil ($nil) (2012 – $0.1 ($0.1)) as a result of the Company's exposure to interest rate fluctuations on its hedged and unhedged floating rate debt.

Foreign currency exchange risk

The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. The Company does not consider its exposure to foreign currency exchange risk to be material.

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

The Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net earnings by $nil ($nil) (2012 – $0.9 ($0.9)) and other comprehensive income by $0.4 ($0.4) (2012 – $1.2 ($1.2)) for foreign currency derivatives in place at year end.

Market risk

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in the price of the investment. The Company estimates that a 10 percent change in the market value of its investments that trade on a recognized stock exchange would impact net earnings by $1.2 (2012 – $nil) and other comprehensive income by $2.1 (2012 – $1.1).

26. SEGMENTED INFORMATION

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

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

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

No asymmetrical allocations have been applied between segments.

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

	May 4, 2013	May 5, 2012
Segmented sales		
Food retailing	$ 17,402.7	$ 16,055.5
Investments and other operations	221.7	204.6
	17,624.4	16,260.1
Elimination of inter-segment	11.7	11.0
Total	$ 17,612.7	$ 16,249.1

	May 4, 2013	May 5, 2012
Segmented operating income		
Food retailing	$ 515.3	$ 475.8
Investments and other operations		
Crombie REIT	13.7	19.7
Real estate partnerships	29.6	30.0
Other operations, net of corporate expenses	26.2	8.8
	69.5	58.5
Total	$ 584.8	$ 534.3

	May 4, 2013	May 5, 2012
Total assets by segment		
Food retailing	$ 6,440.1	$ 6,327.7
Investments and other operations	700.0	585.4
Total	$ 7,140.1	$ 6,913.1

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

	May 4, 2013	May 5, 2012
Total operating income	$ 584.8	$ 534.3
Finance costs, net	50.8	59.9
Total	$ 534.0	$ 474.4

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

27. STOCK-BASED COMPENSATION

Deferred stock units

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred stock units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each directors' fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Non-Voting Class A share at the time of redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase or decrease in the DSU obligation as selling and administrative expenses on the consolidated statements of earnings. At May 4, 2013 there were 131,175 (2012 – 120,093) DSUs outstanding. During the 52 weeks ended May 4, 2013, the compensation expense was $2.6 (2012 – $1.4).

Performance share unit plan

Commencing in fiscal 2012, the Company awarded certain employees a target number of performance share units ("PSUs") that track the Company's Non-Voting Class A share prices over a three-year period. The number of PSUs that vest under an award is dependent on time and the achievement of specific performance measures. On the vesting date, each employee is entitled to receive a cash payout amount equal to the number of their vested PSUs multiplied by the market value of the Non-Voting Class A shares. At May 4, 2013, there were 41,461 (2012 – 18,311) PSUs outstanding. During the 52 weeks ended May 4, 2013, the compensation expense was $0.9 (2012 – $0.6).

The total carrying amount of liability for DSUs and PSUs at May 4, 2013 was $10.5 (2012 – $7.5).

Stock option plan

During fiscal 2013, the Company granted an additional 45,310 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The weighted average fair value of $8.23 per option (2012 – $9.76 per option) was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$ 53.93
Expected life	5.25 years
Risk-free interest rate	1.40%
Expected volatility (based on recent 5-year history)	19.4%
Dividend yield	1.78%

The compensation cost relating to the 52 weeks ended May 4, 2013 was $0.6 (2012 – $1.4) with amortization of the cost over the vesting period of four years. The total increase in contributed surplus in relation to the stock option compensation cost was $0.6 (2012 – $1.4).

The outstanding options at May 4, 2013 were granted at prices between $40.26 and $54.40 and expire between June 2015 and June 2020. Stock option transactions during fiscal 2013 and 2012 were as follows:

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	638,818	$ 46.57	565,571	$ 45.55
Granted	45,310	53.93	73,247	54.40
Balance, end of year	684,128	$ 47.06	638,818	$ 46.57
Stock options exercisable, end of year	468,450		329,050	

The following table summarizes information about stock options outstanding at May 4, 2013:

	Options Outstanding			Options Exercisable	
Year Granted	Number of Outstanding Options	Weighted Average Remaining Contractual Life[1]	Weighted Average Exercise Price	Number Exercisable at May 4, 2013	Weighted Average Exercise Price
2008	81,218	2.17	$ 43.96	81,218	$ 43.96
2009	173,086	3.17	40.26	173,086	40.26
2010	160,803	4.17	46.04	120,602	46.04
2011	150,464	5.17	51.99	75,232	51.99
2012	73,247	6.17	54.40	18,312	54.40
2013	45,310	7.17	53.93	–	–
Total	684,128	4.31	$ 47.06	468,450	$ 44.83

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

Share Purchase Plan

The Company has a share purchase plan for employees of the Company whereby loans are granted to purchase Non-Voting Class A shares.

The Company's current practice is to use only the performance share unit plan and the stock option plan to provide medium-term and long-term incentive for employees. As a result, outstanding loans under the share purchase plan will be repaid at the employees' option, but no later than the expiry date of the loans which were originally set for 10 years.

28. RELATED PARTY TRANSACTIONS

The Company has related party transactions with various associates and key management personnel. The Company holds a 42.8 percent ownership interest in Crombie REIT and accounts for its investment using the equity method.

As as result of the Company's subscription of Class B units and the conversion of Crombie REIT debentures during the current fiscal year, the Company's interest in Crombie REIT decreased from 44.3 to 42.8 percent.

On October 20, 2011, Crombie REIT closed a bought-deal public offering of units at a price of $12.85 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for $30.0 of Class B units (which are convertible on a one-for-one basis into units of Crombie REIT). On March 29, 2012, Crombie REIT closed an additional bought-deal public offering of units at a price of $14.50 per unit. Concurrent with this public offering, the Company subscribed for approximately $53.0 of Class B units.

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

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

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

During the year, the Company sold eight (2012 – nine) properties to Crombie REIT, seven (2012 – seven) of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $106.0 (2012 – $123.9), resulting in a pre-tax gain of $15.0 (2012 – $12.4), which has been recognized in the consolidated statements of earnings. During fiscal 2012, the Company acquired a property from Crombie REIT for $5.0, 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 was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of $7.0.

The Company rents premises from Crombie REIT, at amounts in management's opinion which approximate fair market value. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third parties in each market it operates. During fiscal year 2013, the aggregate net payments under these leases, which are measured at exchange amounts, were $80.6 (2012 – $75.1).

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

At May 4, 2013, investments included $24.8 (2012 – $12.8) of Crombie REIT convertible unsecured subordinated debentures. During fiscal 2012, fixed rate secured mortgages provided to Crombie REIT in the amount of $5.6 were repaid in their entirety. The Company received interest from Crombie REIT of $1.2 for the year ended May 4, 2013 (2012 – $0.8). These amounts are included in other income in the consolidated statements of earnings.

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

Key management personnel compensation

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

Key management personnel compensation was as follows:

	May 4, 2013	May 5, 2012
Salary, bonus and other short-term employee benefits	$ 17.8	$ 16.5
Post-employment benefits	3.8	1.3
Termination benefits	–	1.0
Share-based payments	1.8	1.9
Total	$ 23.4	$ 20.7

Indemnities

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

29. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and (iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of the Company.

The Company monitors and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

The Company considers its total capitalization to include all interest bearing debt, including bank loans, long-term debt (including the current portion thereof) and shareholders' equity, net of cash and cash equivalents. The calculation is set out in the following table:

	May 4, 2013	May 5, 2012
Bank indebtedness	$ 6.0	$ 4.4
Long-term debt due within one year	47.6	237.3
Long-term debt	915.9	889.1
Funded debt	969.5	1,130.8
Less: cash and cash equivalents	(455.2)	(510.2)
Net funded debt	514.3	620.6
Shareholders' equity, net of non-controlling interest	3,726.2	3,396.3
Capital under management	$ 4,240.5	$ 4,016.9

Although the Company does not include operating leases in its definition of capital, the Company does give consideration to its obligations under operating leases when assessing its total capitalization.

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and features and the purchase of land bank sites for future store construction. The Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its investments and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. The cash flow is supplemented, when necessary, through the borrowing of additional debt or the issuance of additional capital stock. No changes were made to these objectives in the current year.

Management monitors certain key ratios to effectively manage capital:

	May 4, 2013	May 5, 2012
Funded debt to total capital[1]	20.6%	25.0%
Funded debt to EBITDA[2]	1.0x	1.3x
EBITDA to interest expense[2]	17.8x	14.4x

(1) Total capital is funded debt plus shareholders' equity, net of non-controlling interest.

(2) EBITDA and interest expense are comprised of EBITDA and interest expense for each of the 52 week periods then ended. EBITDA (operating income plus depreciation and amortization of intangibles) and interest expense (interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income) are non-GAAP financial measures. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

As part of existing debt agreements, two financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are: (i) adjusted total debt/EBITDA – calculated as net funded debt plus letters of credit, guarantees and commitments divided by EBITDA (as defined by the credit agreements and for the previous 52 weeks); and (ii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (all amounts are based on the previous 52 weeks). The Company was in compliance with these covenants during the year.

30. SUBSEQUENT EVENTS

On June 12, 2013, the Company entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to purchase assets and select liabilities of Canada Safeway for cash consideration of $5,800.0. The agreement provides for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 199 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities. The Company's and Sobeys' announcement included their intention that financing for the acquisition will come from a combination of the following: (i) a planned $1,500.0 Empire equity offering; (ii) a planned $1,000.0 sale-leaseback of acquired real estate assets; (iii) a $1,825.0 term loan; (iv) the issuance of $800.0 in unsecured notes by Sobeys; (v) other real estate and non-core asset sales; and (vi) available cash on hand. As some of these transactions may not be completed by the time of closing, Scotiabank has provided Empire and Sobeys with fully committed credit facilities for the full purchase price plus transaction expenses required to close the transaction. Crombie REIT has a right of first offer in respect of any real estate sales undertaken by Sobeys. The closing of the acquisition is expected during the company's second quarter, and is subject to the fulfillment or waiver of certain customary closing conditions as well as the receipt of required regulatory approvals, including that of the Competition Bureau.

Acquisition costs of $5.0 relating to external legal, consulting, due diligence and other closing costs incurred to May 4, 2013 have been included in selling and administrative expenses in the consolidated statements of earnings.

On June 27, 2013, the Company announced that Empire Theatres has reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres in Atlantic Canada and 2 theatres in Ontario. Empire Theatres has also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres in Ontario and Western Canada.

The purchase price for the Cineplex transaction is $200.0 to be paid in cash, subject to certain adjustments to be made at closing.

The purchase price for the Landmark transaction is approximately $55.0 subject to certain adjustments to be made at closing, with the purchase price to be paid as follows: $31.0 in cash on closing; $19.0 in equity; and an earn out right which management estimates has a potential value of approximately $5.0. Upon closing, the assets will be held by a new entity with Empire Theatres' equity being the controlling interest. The new entity will be consolidated into the Company's financial statements, including $30.0 of debt in the new entity. Landmark will manage the business and have a right to buy out Empire Theatres' equity interest for $19.0 in cash until December 31, 2013, following which Empire Theatres can agree to sell its equity interest in the entity and require Landmark to sell on the same terms.

Closing of the transactions is subject to satisfaction of customary conditions and relevant regulatory approvals, which includes approval from the Competition Bureau. Closing of each transaction is expected to occur by late summer of 2013. Empire Theatres is not obligated to close either transaction without closing the other.

Eleven-year financial review

Years Ended[1]	2013	2012	2011	2010
Financial Results ($ in millions; except ROE)				
Sales	$ 17,612.7	$ 16,249.1	$ 15,956.8	$ 15,516.2
Operating income[2]	584.8	534.3	525.7	479.7
Interest expense	50.8	59.9	75.4	72.5
Income taxes	140.1	122.3	122.0	99.1
Non-controlling interest	9.1	12.7	9.0	5.6
Adjusted net earnings, net of non-controlling interest[2][3]	367.3	322.7	303.2	284.5
Net earnings, net of non-controlling interest	384.8	339.4	400.6	301.9
Return on equity	10.3%	10.6%	13.5%	10.7%
Financial Position ($ in millions)				
Total assets	7,140.1	6,913.1	6,518.6	6,176.8
Long-term debt (excluding current portion)	915.9	889.1	1,090.3	821.6
Shareholders' equity[4]	3,726.2	3,396.3	3,162.1	2,832.9
Per Share Data on a Fully Diluted Basis ($ per share)				
Adjusted net earnings, net of non-controlling interest[3]	5.39	4.74	4.45	4.15
Net earnings, net of non-controlling interest	5.65	4.99	5.87	4.40
Dividends				
Non-Voting Class A shares	0.960	0.900	0.800	0.740
Class B common shares	0.960	0.900	0.800	0.740
Book value	54.84	49.98	46.48	43.07
Share Price, Non-Voting Class A Shares ($ per share)				
High	68.63	62.99	59.12	53.95
Low	53.56	52.72	51.07	39.70
Close	68.58	57.62	54.14	52.98
Diluted weighted average number of shares outstanding (in millions)	68.1	68.0	68.2	68.5

(1) Fiscal years 2003 and 2004 ended April 30th. Subsequent fiscal years ended the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc. Financial data for fiscal 2003 to 2010, with the exception of the balances noted for financial position for fiscal 2010, was prepared using CGAAP and has not been restated to IFRS. Fiscal 2005 and 2011 were 53-week years.

(2) Certain balances have been reclassified for changes to comparative figures for fiscal 2011. See Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements.

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

(4) Shareholders' equity before non-controlling interest for fiscal 2010 to 2013.

2009	2008	2007	2006	2005	2004	2003
$ 15,015.1	$ 14,065.0	$ 13,366.7	$ 13,063.6	$ 12,435.2	$ 11,284.0	$ 10,624.2
466.2	472.6	431.1	491.4	463.7	422.8	444.4
80.6	105.8	60.1	83.8	86.7	92.4	93.7
115.4	125.9	116.9	153.1	131.2	111.0	120.0
8.3	12.8	55.4	67.1	63.6	58.5	67.5
261.7	242.8	200.1	202.0	182.9	163.3	159.3
264.7	315.8	205.8	296.8	186.6	172.5	153.3
10.5%	14.0%	10.0%	16.2%	11.4%	11.6%	11.3%
5,891.1	5,732.9	5,241.5	5,051.5	4,929.2	4,679.7	4,519.3
1,124.0	1,414.1	792.6	707.3	727.4	913.0	923.1
2,678.8	2,382.3	2,131.1	1,965.2	1,709.0	1,567.6	1,418.5
3.97	3.69	3.04	3.07	2.78	2.47	2.42
4.02	4.80	3.13	4.51	2.83	2.61	2.33
0.700	0.660	0.600	0.560	0.480	0.400	0.330
0.700	0.660	0.600	0.560	0.480	0.400	0.330
39.07	36.08	32.31	29.77	25.87	23.67	21.41
55.05	55.19	45.25	44.35	38.00	29.50	33.25
35.00	35.40	39.49	33.37	24.25	23.10	23.70
49.00	39.25	42.33	43.29	36.66	26.65	23.85
65.8	65.7	65.7	65.7	65.7	65.8	65.8

Glossary

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

ADJUSTED NET EARNINGS
Net earnings excluding items which are considered not indicative of underlying business operating performance

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

ADJUSTED SALES
Sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012

BOOK VALUE PER COMMON SHARE
Shareholders' equity, net of non-controlling interest, less preferred shares, divided by total common shares outstanding

CAGR
Compound Annual Growth Rate

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

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

EBITDA
EBIT plus depreciation and amortization of intangibles

EBITDA MARGIN
EBITDA divided by sales

FREE CASH FLOW
Cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases

FUNDED DEBT
All interest bearing debt, which includes bank indebtedness, long-term debt and liabilities relating to assets held for sale

GROSS MARGIN
Gross profit divided by sales

GROSS PROFIT
Sales less costs of sales

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

INTEREST EXPENSE
Interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income

NET FUNDED DEBT TO NET TOTAL CAPITAL
Funded debt, less cash and cash equivalents, divided by funded debt, less cash and cash equivalents, plus shareholders' equity, net of non-controlling interest

NET FUNDED DEBT
Funded debt less cash and cash equivalents

NET TOTAL CAPITAL
Total capital less cash and cash equivalents

OPERATING INCOME
Also called earnings before interest and taxes ("EBIT"). Calculated as net earnings before non-controlling interest, finance costs (net of finance income) and income taxes

OPERATING INCOME MARGIN
Operating income divided by sales

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

RETURN ON EQUITY ("ROE")
Net earnings available for common shares divided by average common shareholders' equity, net of non-controlling interest

SAME-STORE SALES
Sales from stores in the same location in both reporting periods

TOTAL CAPITAL
Funded debt plus shareholders' equity, net of non-controlling interest

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

Shareholder and investor information

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B0K 1S0
Telephone: (902) 755-4440
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www.empireco.ca

Investor Relations And Inquiries
Shareholders, analysts and investors should direct their financial inquiries or requests to:

Stewart H. Mahoney, CFA
Vice President, Treasury & Investor Relations
E-mail: investor.relations@empireco.ca

Communication regarding investor records, including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc.*

Affiliated Company Web Addresses
www.sobeyscorporate.com

Transfer Agent
CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.*
Investor Correspondence
P.O. Box 700 Station B
Montréal, Québec
H3B 3K3
Telephone: (800) 387-0825
E-mail: inquiries@canstockta.com

*Canadian Stock Transfer Company Inc. is operating the transfer agency business in the name of CIBC Mellon Trust Company for a transitional period.

Multiple Mailings
If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact CIBC Mellon Trust Company, c/o Canadian Stock Transfer Company Inc. at (800) 387-0825 to eliminate the multiple mailings.

Dividend Record And Payment Dates For Fiscal 2014

Record Date	Payment Date
July 15, 2013	July 31, 2013
October 15, 2013*	October 31, 2013*
January 15, 2014*	January 31, 2014*
April 15, 2014*	April 30, 2014*

*Subject to approval by the Board of Directors

Outstanding Shares

As of June 27, 2013

Non-Voting Class A shares	33,687,747
Class B common shares, voting	34,260,763

Shareholders' Annual General Meeting
September 12, 2013, at 11:00 a.m. (ADT)
Empire Studio 7 Cinemas
612 East River Road
New Glasgow, Nova Scotia

Stock Exchange Listing
The Toronto Stock Exchange

Stock Symbol
Non-Voting Class A shares – EMP.A

52-Week Average Daily Trading Volume (TSX: EMP.A)
62,598

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

Solicitors
Stewart McKelvey
Halifax, Nova Scotia

Auditors
Grant Thornton, LLP
Halifax, Nova Scotia

Thank you

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

A passion *for food*

A passion for food has been the key ingredient of our success since J.W. Sobey opened for business in Stellarton, Nova Scotia more than a century ago. Today, Empire is a leading Canadian public company with annual sales of more than $17 billion and steady prospects for continuing growth. We'll continue to make the most of our opportunities by concentrating our energy and resources on the businesses we know best – food retailing and related real estate.

www.empireco.ca

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