Consolidated Financial Statements

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Management's Statement of Responsibility for Financial Reporting

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

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

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

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

Marc Poulin
President and
Chief Executive Officer

June 28, 2016

François Vimard
Chief Financial and
Administrative Officer

June 28, 2016

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

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

OTHER MATTER

The financial statements of Empire Company Limited for the 52-week period ended May 2, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on June 24, 2015.

PricewaterhouseCoopers LLP

Chartered Accountants

Halifax, Canada
June 28, 2016

Consolidated Balance Sheets

As At (in millions of Canadian dollars)	May 7, 2016	May 2, 2015
ASSETS		
Current		
Cash and cash equivalents	**$ 264.7**	$ 295.9
Receivables	**489.4**	499.7
Inventories *(Note 4)*	**1,287.3**	1,260.6
Prepaid expenses	**117.3**	120.5
Loans and other receivables *(Note 5)*	**26.4**	24.8
Income taxes receivable	**11.9**	18.9
Assets held for sale *(Note 6)*	**407.1**	47.8
	2,604.1	2,268.2
Loans and other receivables *(Note 5)*	**93.5**	88.5
Investments	**24.7**	25.1
Investments, at equity *(Note 7)*	**574.9**	577.8
Other assets *(Note 8)*	**42.8**	48.4
Property and equipment *(Note 9)*	**3,144.7**	3,500.4
Investment property *(Note 10)*	**82.9**	104.2
Intangibles *(Note 11)*	**911.5**	938.0
Goodwill *(Note 12)*	**962.2**	3,799.2
Deferred tax assets *(Note 13)*	**646.2**	110.9
	$ 9,087.5	$ 11,460.7
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 2,173.1**	$ 2,264.9
Income taxes payable	**21.2**	40.9
Provisions *(Note 14)*	**174.9**	122.1
Long-term debt due within one year *(Note 15)*	**341.4**	53.9
	2,710.6	2,481.8
Provisions *(Note 14)*	**131.7**	142.9
Long-term debt *(Note 15)*	**2,011.5**	2,230.2
Other long-term liabilities *(Note 16)*	**108.7**	106.9
Employee future benefits *(Note 17)*	**336.8**	351.1
Deferred tax liabilities *(Note 13)*	**108.1**	110.9
	5,407.4	5,423.8
SHAREHOLDERS' EQUITY		
Capital stock *(Note 18)*	**2,045.1**	2,109.4
Contributed surplus	**22.5**	8.2
Retained earnings	**1,543.5**	3,859.9
Accumulated other comprehensive income	**9.9**	6.3
	3,621.0	5,983.8
Non-controlling interest	**59.1**	53.1
	3,680.1	6,036.9
	$ 9,087.5	$ 11,460.7

See accompanying notes to the consolidated financial statements.

On Behalf of the Board

(signed) "Rob Dexter" (signed) "Marc Poulin"

Director Director

Consolidated Statements of (Loss) Earnings

53 and 52 Weeks Ended (in millions of Canadian dollars, except per share amounts)	**May 7, 2016**	May 2, 2015
Sales	**$ 24,618.8**	$ 23,928.8
Other (loss) income, net *(Note 19)*	**(10.9)**	98.4
Share of earnings from investments, at equity *(Note 7)*	**86.1**	85.7
Operating expenses		
Cost of sales	**18,661.2**	17,966.7
Selling and administrative expenses	**5,424.2**	5,403.8
Impairments of goodwill and long-lived assets *(Notes 9 and 12)*	**3,027.1**	–
Operating (loss) income	**(2,418.5)**	742.4
Finance costs, net *(Note 21)*	**137.4**	155.1
(Loss) earnings before income taxes	**(2,555.9)**	587.3
Income tax (recovery) expense *(Note 13)*	**(441.3)**	150.4
Net (loss) earnings	**$ (2,114.6)**	$ 436.9
(Loss) earnings for the year attributable to:		
Non-controlling interest	**$ 16.4**	$ 17.9
Owners of the Company	**(2,131.0)**	419.0
	$ (2,114.6)	$ 436.9
(Loss) earnings per share *(Note 22)*		
Basic	**$ (7.78)**	$ 1.51
Diluted	**$ (7.78)**	$ 1.51
Weighted average number of common shares outstanding, in millions *(Note 22)*		
Basic	**273.9**	277.0
Diluted	**274.0**	277.2

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive (Loss) Income

53 and 52 Weeks Ended (in millions of Canadian dollars)	May 7, 2016	May 2, 2015
Net (loss) earnings	$ (2,114.6)	$ 436.9
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net (loss) earnings		
Unrealized gains (losses) on derivatives designated as cash flow hedges (net of taxes of $(1.5) (2015 – $1.8))	3.8	(4.6)
Reclassification of losses on derivatives designated as cash flow hedges to net (loss) earnings (net of taxes of $(0.1) (2015 – $(0.2)))	0.1	0.4
Unrealized (losses) gains on available for sale financial assets (net of taxes of $0.1 (2015 – $ nil))	(0.3)	0.4
Share of other comprehensive income of investments, at equity (net of taxes of $(0.4) (2015 – $(0.3)))	1.1	1.3
Exchange differences on translation of foreign operations (net of taxes of $(2.4) (2015 – $ nil))	(1.1)	7.8
	3.6	5.3
Items that will not be reclassified subsequently to net (loss) earnings		
Actuarial gains (losses) on defined benefit plans (net of taxes of $(2.8) (2015 – $15.8))	7.3	(45.3)
Total comprehensive (loss) income	$ (2,103.7)	$ 396.9
Total comprehensive (loss) income for the year attributable to:		
Non-controlling interest	$ 16.4	$ 17.9
Owners of the Company	(2,120.1)	379.0
	$ (2,103.7)	$ 396.9

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 Income	Retained Earnings	Total Attributable to Owners of the Company	Non-controlling Interest	Total Equity
Balance at May 3, 2014	$ 2,108.6	$ 5.0	$ 1.0	$ 3,585.9	$ 5,700.5	$ 41.0	$ 5,741.5
Dividends declared on common shares	–	–	–	(99.7)	(99.7)	–	(99.7)
Employee share options	0.8	3.2	–	–	4.0	–	4.0
Capital transactions with structured entities	–	–	–	–	–	(5.8)	(5.8)
Transactions with owners	0.8	3.2	–	(99.7)	(95.7)	(5.8)	(101.5)
Net earnings	–	–	–	419.0	419.0	17.9	436.9
Other comprehensive loss	–	–	5.3	(45.3)	(40.0)	–	(40.0)
Total comprehensive income for the year	–	–	5.3	373.7	379.0	17.9	396.9
Balance at May 2, 2015	$ 2,109.4	$ 8.2	$ 6.3	$ 3,859.9	$ 5,983.8	$ 53.1	$ 6,036.9
Dividends declared on common shares	**–**	**–**	**–**	**(109.4)**	**(109.4)**	**–**	**(109.4)**
Equity based compensation, net	**0.5**	**14.3**	**–**	**–**	**14.8**	**–**	**14.8**
Redemption of capital stock *(Note 18)*	**(64.8)**	**–**	**–**	**(83.3)**	**(148.1)**	**–**	**(148.1)**
Capital transactions with structured entities	**–**	**–**	**–**	**–**	**–**	**(10.4)**	**(10.4)**
Transactions with owners	**(64.3)**	**14.3**	**–**	**(192.7)**	**(242.7)**	**(10.4)**	**(253.1)**
Net loss	**–**	**–**	**–**	**(2,131.0)**	**(2,131.0)**	**16.4**	**(2,114.6)**
Other comprehensive income	**–**	**–**	**3.6**	**7.3**	**10.9**	**–**	**10.9**
Total comprehensive loss for the year	**–**	**–**	**3.6**	**(2,123.7)**	**(2,120.1)**	**16.4**	**(2,103.7)**
Balance at May 7, 2016	**$ 2,045.1**	**$ 22.5**	**$ 9.9**	**$ 1,543.5**	**$ 3,621.0**	**$ 59.1**	**$ 3,680.1**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

53 and 52 Weeks Ended (in millions of Canadian dollars)	May 7, 2016	May 2, 2015
Operations		
Net (loss) earnings	**$ (2,114.6)**	$ 436.9
Adjustments for:		
Depreciation	**384.8**	397.8
Income tax (recovery) expense	**(441.3)**	150.4
Finance costs, net *(Note 21)*	**137.4**	155.1
Amortization of intangibles	**89.0**	84.7
Loss (gain) on disposal of assets	**42.6**	(67.0)
Impairment of non-financial assets, net	**17.6**	1.5
Impairments of goodwill and long-lived assets *(Notes 9 and 12)*	**3,027.1**	–
Amortization of deferred item	**12.8**	12.7
Equity in earnings of other entities, net of distributions received	**9.9**	33.3
Employee future benefits	**(4.2)**	(2.9)
Increase in long-term lease obligation	**6.7**	5.8
Decrease in long-term provisions	**(25.8)**	(52.5)
Stock option plan	**3.6**	4.0
Restructuring	**–**	103.0
Net change in non-cash working capital	**(132.2)**	(14.5)
Income taxes paid, net	**(116.6)**	(90.2)
Cash flows from operating activities	**896.8**	1,158.1
Investment		
Increase in investments	**(4.0)**	(40.7)
Property, equipment and investment property purchases	**(616.5)**	(497.2)
Proceeds on disposal of property, equipment and investment property	**142.5**	781.2
Additions to intangibles	**(55.5)**	(39.8)
Loans and other receivables	**(6.6)**	(14.4)
Other assets and other long-term liabilities	**5.6**	(19.0)
Business acquisitions *(Note 23)*	**(90.7)**	(11.7)
Interest received	**2.6**	1.4
Cash flows (used in) from investing activities	**(622.6)**	159.8
Financing		
Issue of long-term debt	**716.7**	409.4
Debt financing costs	**(1.4)**	(0.9)
Repayment of long-term debt	**(660.4)**	(1,635.5)
Interest paid	**(92.4)**	(118.8)
Repurchase of Non-Voting Class A shares *(Note 18)*	**(148.1)**	–
Dividends paid, common shares	**(109.4)**	(99.7)
Non-controlling interest	**(10.4)**	(5.8)
Cash flows used in financing activities	**(305.4)**	(1,451.3)
Decrease in cash and cash equivalents	**(31.2)**	(133.4)
Cash and cash equivalents, beginning of year	**295.9**	429.3
Cash and cash equivalents, end of year	**$ 264.7**	$ 295.9

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

May 7, 2016 (in millions of Canadian dollars, except per share amounts)

1. REPORTING ENTITY

Empire Company Limited ("Empire" or the "Company") is a Canadian company whose key businesses are food retailing and related real estate. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The consolidated financial statements for the period ended May 7, 2016 include the accounts of Empire, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and its joint ventures are accounted for using the equity method. The Company's business operations are conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 26, *Segmented Information*. The Company's food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's first quarter. The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years. The years ended May 7, 2016 and May 2, 2015 were 53 and 52 weeks, respectively.

2. BASIS OF PREPARATION

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on June 28, 2016.

Basis of measurement

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

Use of estimates and judgments

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

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

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

(a) Inventories

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

(b) Impairment

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

Goodwill is subject to impairment testing on an annual basis. The Company previously performed its annual assessment of goodwill impairment during its first quarter, but is transitioning to complete the assessment in its third quarter to better align with the Company's budgeting process. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are indicators that the recoverable amount of long-lived assets may be less than their carrying amount. As a result of operational challenges faced in Western Canada, primarily under the Safeway banner, and the outcome of the long-lived asset impairment tests, the Company reviewed goodwill for impairment as at January 30, 2016 and May 7, 2016 (Note 12).

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

(c) Employee future benefits

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

(d) Income taxes

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

(e) Business acquisitions

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

(f) Provisions

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

(g) Supply agreements

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

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

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

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

(b) Business acquisitions

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

(c) Foreign currency translation

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

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

(d) Cash and cash equivalents

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

(e) Inventories

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

(f) Income taxes

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

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

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

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

(g) Assets held for sale

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

(h) Investments in associates

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

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

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

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

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

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

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

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

(i) Investments in joint ventures

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

(j) Financial instruments

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

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

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

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

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

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

Fair value determination is classified within a three-level hierarchy, based on observability of significant inputs, as follows: Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or Level 3 – unobservable inputs for the asset or liability. Inputs into the determination of the fair value require management's 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, variable interest rates, and energy prices. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income or loss. To the extent the change in fair value of the derivative does not completely offset the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings or loss. Amounts accumulated in other comprehensive income or loss are reclassified to net earnings or loss when the hedged item is recognized in net earnings or loss. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income or loss relating to the hedge is carried forward until the hedged item is recognized in net earnings or loss. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income or loss is immediately reclassified to net earnings or loss.

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

Significant derivatives include the following:

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

(2) 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 is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

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

(l) Property and equipment

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

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

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

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

Depreciation has been included within selling and administrative expenses in the consolidated statements of (loss) 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 (loss) income, net. If the sale is to a Company's investment, at equity, a portion of the gain is deferred and 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 is deferred and would reduce the carrying value of the Company's investment. Rental income and operating expenses from investment property are reported within other (loss) income, net and selling and administrative expenses, respectively, in the consolidated statements of (loss) 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
Off market leases	Lesser of lease term and 40 years
Prescription files	15 years
Software	3 – 7 years
Other	5 – 10 years

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

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

(p) Goodwill

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

(q) Impairment of non-financial assets

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

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 FVLCD and VIU. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU(s) to which the asset belongs. The Company has determined a CGU to be primarily an individual store. Corporate assets such as head offices and distribution centres do not individually generate separate cash inflows and are therefore aggregated for testing with the stores they service. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to the recoverable amount. An impairment loss is recognized immediately in net earnings or loss.

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

(r) Customer loyalty programs

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

Previously, the Company utilized a loyalty card program (the "Program") which allowed members to earn points on their purchases in certain Sobeys retail stores. Members could redeem these points, in accordance with the Program rewards schedule, for discounts on future grocery purchases, or purchase products or services. The fair value of loyalty points awarded was accounted for as a separate element of the sales transaction and recognition of revenue was deferred until the awards were redeemed after adjustment for the number of points expected never to be redeemed based on the expected future activity. Fair value was determined by reference to the value for which the points can be redeemed. The deferred revenue relating to the Program was included in accounts payable and accrued liabilities on the Company's consolidated balance sheets. During the fourth quarter of fiscal 2015, the Program ceased with all remaining stores transitioning into the AIR MILES® loyalty program. Customers had the ability to exchange outstanding points into AIR MILES® with redemptions permitted until June 1, 2015.

(s) Provisions

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

(t) Borrowing costs

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

(u) Deferred revenue

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

(v) Employee benefits

(i) Short-term employment benefits

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

(ii) Post-employment benefits

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

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

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

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

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

(iii) Termination benefits

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

(w) Revenue recognition

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

(x) Vendor allowances

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

(y) Interest and dividend income

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

(z) Earnings per share

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

(aa) Stock-based compensation

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

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

(bb) Future standards and amendments

(i) Leases

In January 2016, the IASB issued IFRS 16, "Leases", which will supersede IAS 17, "Leases" and IFRIC 4, "Determining whether an Arrangement contains a Lease". IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15 "Revenue from Contracts with Customers", but the Company does not intend to do so at this time.

(ii) Financial instruments

In July 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establishes an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is applied prospectively. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(iii) Revenue

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

(iv) Presentation of financial statements

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing clarifying guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2016 and therefore the Company will apply these amendments in the first quarter of fiscal 2017. The Company does not expect any material impact on its financial statement disclosures as a result of adopting these amendments.

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

4. INVENTORIES

The cost of inventories recognized as an expense during the year was $18,661.2 (2015 – $17,966.7). The Company recorded $1.2 (2015 – $4.4) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 7, 2016. There were no reversals of inventories written down previously (2015 – $ nil).

5. LOANS AND OTHER RECEIVABLES

	May 7, 2016	May 2, 2015
Loans receivable	$ **76.6**	$ 72.7
Notes receivable and other	**43.3**	40.6
	119.9	113.3
Less amount due within one year	**26.4**	24.8
	$ **93.5**	$ 88.5

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

Included in notes receivable and other as at May 7, 2016, is $14.5 (2015 – $15.8) due from a third party related to equipment sales.

Loans receivable from officers and employees of $0.5 (2015 – $0.6) 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 20,810 (2015 – 73,662) Non-Voting Class A shares. The market value of the shares at May 7, 2016 was $0.4 (2015 – $2.1).

6. ASSETS HELD FOR SALE

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which the Company has a 41.5 percent ownership, to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres as well as the sale of two parcels of development land owned by Empire. Assets related to this transaction of $358.0 have been included in assets held for sale as at May 7, 2016 (Note 30).

Subsequent to May 7, 2016, Sobeys sold and leased back a property from a third party. Assets of $22.9 have been included in assets held for sale as at May 7, 2016 for this property (Note 30).

During fiscal 2016, Sobeys sold nine (2015 – 22) properties and leased back six (2015 – 22), and also sold equipment. All properties, excluding one, and equipment were classified as assets held for sale. Total proceeds from these transactions were $115.7 (2015 – $61.6), resulting in a pre-tax gain of $23.3 (2015 – $24.9) which has been recognized in the consolidated statements of (loss) earnings.

On July 8, 2014, Sobeys announced that it entered into an agreement with Agropur Cooperative to sell four Safeway dairy manufacturing facilities. In addition, long-term milk, yogurt and ice cream supply agreements came into effect upon transfer of the facilities to Agropur Cooperative. During the year ended May 2, 2015, all of the facilities were sold and aggregate proceeds of $344.2 were attributed to the sales resulting in a gain of $27.0. All proceeds were used to repay bank borrowings. A further sales price adjustment under the terms of the asset purchase agreement was required during fiscal 2016 (Notes 14 and 19).

On December 2, 2014, Sobeys entered into an agreement with Canada Bread Company, Limited to sell two bread manufacturing facilities. During the fourth quarter of fiscal 2015, the two bread manufacturing facilities were sold for proceeds of $27.8, resulting in a gain of $4.4.

As at May 7, 2016, assets held for sale relates to land and buildings expected to be sold in the next twelve months.

7. INVESTMENTS, AT EQUITY

	May 7, 2016	May 2, 2015
Investment in associates		
Crombie REIT	$ 366.8	$ 365.6
Canadian real estate partnerships	148.5	143.4
U.S. real estate partnerships	50.2	59.3
Investment in joint ventures		
Canadian Digital Cinema Partnership ("CDCP")	9.4	9.5
Total	$ 574.9	$ 577.8

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

	May 7, 2016	May 2, 2015
Crombie REIT	$ 786.0	$ 724.3

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

The Company owns 53,866,589 Class B LP units and attached special voting units of Crombie REIT, along with 909,090 REIT units, representing a 41.5% economic and voting interest in Crombie REIT.

During the Company's fiscal 2015, Crombie REIT instituted a distribution reinvestment plan ("DRIP") whereby Canadian resident REIT unitholders may elect to automatically have their distributions reinvested in additional REIT units. The Company has enrolled in the DRIP to maintain its economic and voting interest in Crombie REIT.

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

	May 7, 2016	May 2, 2015
Balance, beginning of year	$ 365.6	$ 333.5
Equity earnings	38.9	30.6
Share of comprehensive income	1.4	1.0
Distributions, net of DRIP	(42.3)	(46.9)
Deferral of gains on sale of property	(4.0)	(1.0)
Reversal of deferred gain on sale of property to unrelated party	7.2	8.3
Interest acquired in Crombie REIT	–	40.0
Dilution gain *(Note 19)*	–	0.1
Balance, end of year	$ 366.8	$ 365.6

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

	May 7, 2016	May 2, 2015
Balance, beginning of year	**$ 143.4**	$ 143.7
Equity earnings	**38.5**	43.8
Distributions	**(35.6)**	(44.1)
Investment	**2.2**	–
Balance, end of year	**$ 148.5**	$ 143.4

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

	May 7, 2016	May 2, 2015
Balance, beginning of year	**$ 59.3**	$ 67.3
Equity earnings	**8.2**	10.9
Distributions	**(17.4)**	(27.4)
Foreign currency translation adjustment	**1.3**	7.8
Investment	**1.8**	0.7
Dilution loss *(Note 19)*	**(3.0)**	–
Balance, end of year	**$ 50.2**	$ 59.3

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

	May 7, 2016	May 2, 2015
Balance, beginning of year	**$ 9.5**	$ 9.7
Equity earnings	**0.5**	0.4
Share of comprehensive income	**0.1**	–
Distributions	**(0.7)**	(0.6)
Balance, end of year	**$ 9.4**	$ 9.5

The following amounts represent the revenues, expenses, assets and liabilities of Crombie REIT as at and for the 12 months ended March 31, 2016, as well as a reconciliation of the carrying amount of the Company's investment in Crombie REIT to the net assets attributable to unitholders of Crombie REIT:

	March 31, 2016	March 31, 2015
Revenues	**$ 372.3**	$ 359.9
Expenses	**279.1**	289.7
Earnings before income taxes	**$ 93.2**	$ 70.2
Loss from continuing operations	**$ (24.2)**	$ (43.5)
Other comprehensive income	**2.9**	2.0
Total comprehensive loss	**$ (21.3)**	$ (41.5)

	March 31, 2016	March 31, 2015
Assets		
Current	**$ 59.8**	$ 35.4
Non-current	**3,301.2**	3,383.4
Total	**$ 3,361.0**	$ 3,418.8
Liabilities		
Current	**$ 165.9**	$ 170.5
Non-current	**2,028.5**	2,075.1
Total	**$ 2,194.4**	$ 2,245.6
Unitholders' net assets		
REIT Units	**$ 705.9**	$ 710.1
Class B LP Units	**460.7**	463.1
	1,166.6	1,173.2
Less REIT Units	**(705.9)**	(710.1)
Cumulative changes since acquisition of Crombie REIT		
Variance in timing of distributions	**4.0**	3.8
Issue costs related to Class B LP Units	**12.6**	12.6
Deferred gains (net of depreciation addback)	**(162.6)**	(166.1)
Dilution gains	**38.6**	38.6
Write off of portion of AOCI on dilution of interest in Crombie REIT	**0.7**	0.7
Carrying amount attributable to investment in Class B LP Units	**354.0**	352.7
REIT Units owned by Empire	**13.8**	13.8
Cumulative equity earnings on REIT Units	**1.8**	1.1
Cumulative distributions on REIT Units	**(2.8)**	(2.0)
Carrying amount of investment in Crombie REIT	**$ 366.8**	$ 365.6

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

The following amounts represent the revenues, expenses, assets and liabilities of the Canadian real estate partnerships as at and for the 12 months ended March 31, 2016:

	March 31, 2016	March 31, 2015
Revenues	**$ 150.6**	$ 176.8
Expenses	**62.5**	72.4
Net earnings from continuing operations	**$ 88.1**	$ 104.4
Net (loss) earnings from discontinued operations	**(0.4)**	3.9
Net earnings	**$ 87.7**	$ 108.3

	March 31, 2016	March 31, 2015
Current assets	**$ 334.2**	$ 324.2
Current liabilities	**29.9**	27.3
Non-current liabilities	**–**	5.0
Net assets	**$ 304.3**	$ 291.9
Carrying amount of investment	**$ 148.5**	$ 143.4

The Company has interests in various U.S. real estate partnerships ranging from 39.0% to 43.7% which are involved in residential property developments in the United States.

The following amounts represent the revenues, expenses, assets and liabilities of the U.S. real estate partnerships as at and for the 12 months ended March 31, 2016:

	March 31, 2016	March 31, 2015
Revenues	**$ 59.2**	$ 81.9
Expenses	**39.9**	56.9
Net earnings	**$ 19.3**	$ 25.0

	March 31, 2016	March 31, 2015
Current assets	**$ 144.5**	$ 153.1
Current liabilities	**16.3**	17.2
Net assets	**$ 128.2**	$ 135.9
Carrying amount of investment	**$ 50.2**	$ 59.3

8. OTHER ASSETS

	May 7, 2016	May 2, 2015
Restricted cash	**$ –**	$ 4.4
Deferred lease assets	**23.6**	23.1
Derivative assets	**2.1**	0.1
Property deposits	**–**	6.8
Other	**17.1**	14.0
Total	**$ 42.8**	$ 48.4

9. PROPERTY AND EQUIPMENT

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

May 2, 2015	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 699.6	$ 1,555.6	$ 2,598.9	$ 669.9	$ 236.7	$ 5,760.7
Additions	51.4	33.7	139.3	57.4	205.2	487.0
Additions from business acquisitions	1.5	–	4.1	0.2	0.2	6.0
Transfers	(6.7)	(30.1)	(19.5)	2.6	(228.3)	(282.0)
Disposals and write downs	(32.9)	(67.3)	(250.2)	(38.5)	(2.0)	(390.9)
Closing balance	$ 712.9	$ 1,491.9	$ 2,472.6	$ 691.6	$ 211.8	$ 5,580.8
Accumulated depreciation and impairment losses						
Opening balance	$ –	$ 355.7	$ 1,416.3	$ 303.1	$ –	$ 2,075.1
Disposals and write downs	–	(34.0)	(241.3)	(27.8)	–	(303.1)
Transfers	–	(25.9)	(48.4)	(17.9)	–	(92.2)
Depreciation	–	72.6	258.2	66.2	–	397.0
Impairment losses	–	–	3.5	1.1	–	4.6
Impairment reversals	–	–	(0.9)	(0.1)	–	(1.0)
Closing balance	$ –	$ 368.4	$ 1,387.4	$ 324.6	$ –	$ 2,080.4
Net carrying value as at May 2, 2015	$ 712.9	$ 1,123.5	$ 1,085.2	$ 367.0	$ 211.8	$ 3,500.4

Finance leases

The Company has various property leases for store locations classified as finance leases with a net carrying value of $5.0 as at May 7, 2016 (2015 – $13.7). These leases are included in buildings.

The Company has equipment leases classified as finance leases with a net carrying value of $30.8 as at May 7, 2016 (2015 – $25.4). These leases are included in equipment.

Assets under construction

During the year, the Company capitalized borrowing costs of $1.9 (2015 – $0.5) on indebtedness related to property and equipment under construction. The Company used a capitalization rate of 4.2 percent (2015 – 4.4 percent).

Security

As at May 7, 2016, the net carrying value of property pledged as security for borrowings is $67.5 (2015 – $75.2).

Impairment of property and equipment

Property and equipment are assessed for impairment at each reporting period at the CGU level, except for those assets which are considered to be corporate assets. Corporate assets that cannot be allocated on a reasonable and consistent basis to individual CGUs are allocated to an operating segment for impairment testing. A CGU has been identified as an individual store. The Company performed the impairment test for property and equipment by estimating the recoverable amount of each CGU to which the property and equipment relate. The recoverable amount was determined to be the higher of FVLCD and VIU. When the recoverable amount of the CGU is less than the carrying amount an impairment loss is recognized. Recoverable amounts based on VIU calculations are determined using cash flow projections from the Company's latest internal forecasts. Key assumptions used in determining VIU include discount rates, growth rates, and expected changes in cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the CGUs. Forecasts are projected beyond three years based on long-term growth rates ranging from 3.0 to 5.0 percent. Discount rates are calculated on a pre-tax basis and range from 7.0 to 10.0 percent.

An impairment loss of $148.6 was recorded during the year ended May 7, 2016 for property and equipment in the Sobeys West operating segment and was recognized within impairment of goodwill and long-lived assets in the consolidated statements of (loss) earnings.

Other impairment losses of $19.8 and reversals of $2.2 were recorded during the year ended May 7, 2016 (2015 – $4.6 and $1.0). All impairment losses and reversals relate to the food retailing segment.

10. INVESTMENT PROPERTY

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

	May 7, 2016	May 2, 2015
Cost		
Opening balance	$ 115.1	$ 121.0
Additions	7.9	6.5
Transfers	(26.3)	(4.6)
Disposals and write downs	(5.3)	(7.8)
Closing balance	$ 91.4	$ 115.1
Accumulated depreciation and impairment losses		
Opening balance	$ 10.9	$ 16.5
Depreciation	0.6	0.8
Transfers	(3.2)	–
Disposals and write downs	0.2	(6.4)
Closing balance	$ 8.5	$ 10.9
Net carrying value	$ 82.9	$ 104.2
Fair value	$ 114.6	$ 152.8

The fair value of investment property is classified as Level 3 on the fair value hierarchy. The fair value represents the price that would be received to sell the assets in an orderly transaction between market participants at the measurement date.

An external, independent valuation company, having appropriate recognized professional qualifications and experience assisted in determining the fair value of investment property at May 7, 2016 and May 2, 2015. Additions to investment property through

acquisition are transacted at fair value and therefore carrying value equals fair value at the time of acquisition. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information or the use of an external independent valuation company.

Rental income from investment property included in the consolidated statements of (loss) earnings amounted to $4.6 for the year ended May 7, 2016 (2015 – $4.9).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to $2.3 for the year ended May 7, 2016 (2015 – $2.0). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to $1.0 for the year ended May 7, 2016 (2015 – $1.0). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of (loss) earnings.

Impairment of investment property follows the same methodology as property and equipment (Note 9). There were no impairment losses or reversals for the year ended May 7, 2016 (2015 – $ nil).

11. INTANGIBLES

May 7, 2016	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	$ 201.0	$ 115.2	$ 306.9	$ 276.2	$ 180.5	$ 200.3	$ 1,280.1
Additions, separately acquired	–	31.0	0.5	–	–	5.5	37.0
Additions from business acquisitions	–	2.9	–	–	–	4.1	7.0
Transfers	–	(2.7)	(2.2)	25.9	(0.7)	(0.3)	20.0
Disposals and write downs	–	(3.4)	–	(43.3)	–	(10.1)	(56.8)
Closing balance	$ 201.0	$ 143.0	$ 305.2	$ 258.8	$ 179.8	$ 199.5	$ 1,287.3
Accumulated amortization and impairment losses							
Opening balance	$ 23.1	$ 46.9	$ 49.0	$ 137.8	$ 11.4	$ 73.9	$ 342.1
Amortization	3.0	14.7	20.6	33.9	7.4	9.4	89.0
Transfers	–	(0.1)	(0.9)	0.4	0.1	1.0	0.5
Disposals and write downs	–	(3.4)	–	(43.3)	–	(9.1)	(55.8)
Closing balance	$ 26.1	$ 58.1	$ 68.7	$ 128.8	$ 18.9	$ 75.2	$ 375.8
Net carrying value as at May 7, 2016	$ 174.9	$ 84.9	$ 236.5	$ 130.0	$ 160.9	$ 124.3	$ 911.5

May 2, 2015	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	$ 215.0	$ 109.8	$ 306.8	$ 250.7	$ 191.3	$ 204.1	$ 1,277.7
Additions, separately acquired	–	12.8	–	–	–	3.1	15.9
Additions from business acquisitions	–	–	0.3	–	–	0.1	0.4
Transfers	(14.0)	(1.1)	(0.2)	27.1	–	0.1	11.9
Disposals and write downs	–	(6.3)	–	(1.6)	(10.8)	(7.1)	(25.8)
Closing balance	$ 201.0	$ 115.2	$ 306.9	$ 276.2	$ 180.5	$ 200.3	$ 1,280.1
Accumulated amortization and impairment losses							
Opening balance	$ 20.9	$ 40.5	$ 30.9	$ 108.9	$ 10.1	$ 72.8	$ 284.1
Amortization	3.0	13.0	20.3	30.3	7.9	10.2	84.7
Impairment reversals	–	–	(2.1)	–	–	–	(2.1)
Transfers	(0.8)	(0.8)	(0.1)	–	–	(2.2)	(3.9)
Disposals and write downs	–	(5.8)	–	(1.4)	(6.6)	(6.9)	(20.7)
Closing balance	$ 23.1	$ 46.9	$ 49.0	$ 137.8	$ 11.4	$ 73.9	$ 342.1
Net carrying value as at May 2, 2015	$ 177.9	$ 68.3	$ 257.9	$ 138.4	$ 169.1	$ 126.4	$ 938.0

In addition to development costs capitalized related to software, the Company included in selling and administrative expenses $7.5 of research and development costs (2015 – $14.4).

Impairment of intangibles follows the same methodology as property and equipment (Note 9). For the year ended May 7, 2016, impairment losses of $ nil (2015 – $ nil) and reversals of $ nil were recorded (2015 – $2.1).

Included in other intangibles at May 7, 2016 are liquor licenses of $4.1. These licenses have options to renew and it is the Company's intention to renew these licenses at each renewal date indefinitely. Therefore, there is no limit to which cash inflows will be generated at each store location for which the license is valid, and these assets are considered to have indefinite useful lives. Also, included in intangibles as at May 7, 2016 and May 2, 2015 are the following amounts with indefinite useful lives: Brand names – $172.8; Loyalty programs – $11.4; and Private labels - $59.5. Loyalty programs and private labels are grouped with other intangibles. All intangibles with indefinite useful lives relate to the food retailing segment. Impairment of these intangibles is assessed at least annually on the same basis as goodwill (Note 12).

12. GOODWILL

	May 7, 2016	May 2, 2015
Opening balance	**$ 3,799.2**	$ 4,069.7
Additions from business acquisitions	**39.8**	4.5
Transfer to assets held for sale	**–**	(276.0)
Impairments	**(2,878.5)**	–
Other adjustments	**1.7**	1.0
Closing balance	**$ 962.2**	$ 3,799.2

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

	May 7, 2016	May 2, 2015
Atlantic	**$ 185.0**	$ 163.8
Lawtons	**15.8**	15.4
Ontario	**152.5**	150.3
Quebec	**608.9**	608.9
West	**–**	2,860.8
Total	**$ 962.2**	$ 3,799.2

Impairment of goodwill

Goodwill arising on business acquisitions is not amortized but is reviewed for impairment on an annual basis, or more frequently, if indicators that goodwill may be impaired exist. The Company's annual review of goodwill was performed during the first quarter of fiscal 2016, and resulted in no impairment being recorded (2015 – $ nil). In performing the review, the Company determined the recoverable amount of the CGU to which goodwill relates based on FVLCD. The key assumption used by management to determine the fair value of the CGU includes industry earnings multiples in a range from 7.0 to 12.5. This key assumption is classified as Level 2 on the fair value hierarchy. During the year, the Company transitioned its annual review of goodwill to the third quarter to better align with the Company's budgeting process (Note 2).

During the third quarter of fiscal 2016, management determined there were indicators of impairment in the West business unit as a result of the significant operational challenges the Company has experienced under the Safeway banner, the outcome of the property and equipment impairment test (Note 9), and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. During the fourth quarter of fiscal 2016 the operational and economic challenges in Western Canada have deepened with increasing markets being impacted. The Company continues to experience significant negative trends in its operating results of the Sobeys West operating segment, and views these trends as indicators of further impairment. Impairment reviews were performed in both the third and fourth quarter by comparing the carrying value of goodwill with the recoverable amount of the CGUs to which goodwill has been allocated.

Recoverable amounts for CGUs or groups of CGUs are based on the higher of VIU and FVLCD. For its third and fourth quarter impairment reviews, management determined the recoverable amount of the CGUs based on VIU calculations which requires the use of certain key assumptions. VIU was calculated from cash flow projections for five years using financial data from the Company's most up-to-date internal forecasts and budgets that were formally approved by management. Given the risks related to expected variations in the cash flows and the uncertainty the Company is experiencing in the West business unit the present value of the expected future cash flows used in the VIU calculation reflects the weighted average of the most probable outcomes. Cash flows beyond the five-year period are extrapolated using the estimated growth rates for the retail grocery industry in the particular market and the long-term economic growth of the country. Management estimates its pre-tax discount rate based on the current market assessment of the time value of money and the risks specific to the CGU. The pre-tax discount rate used ranged from 12.5 percent to 16.5 percent which is derived from the Company's post-tax weighted average cost of capital. The post-tax discount rate used was 10.0 percent. The Company's operating margins are based on past performance and management's expectations for the future. Growth rates used to estimate future performance are generally consistent with forecasts included in industry reports in the relevant market and is in line with market data. The Company has assumed a 3.0 percent annual growth rate for its operating cash flows. A terminal growth rate of 3.0 percent was used to project cash flow beyond five years, which is consistent with forecasts included in industry reports.

The Company recorded a goodwill impairment of $2,878.5 for the Sobeys West operating segment during the year ended May 7, 2016 which was recognized within impairment of goodwill and long-lived assets in the consolidated statements of (loss) earnings.

13. INCOME TAXES

Income tax (recovery) 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 7, 2016	May 2, 2015
(Loss) earnings before income taxes	**$ (2,555.9)**	$ 587.3
Effective combined statutory income tax rate	**26.6%**	26.4%
Income tax (recovery) expense according to combined statutory income tax rate	**(679.9)**	155.0
Income taxes resulting from:		
Non-deductible items	**7.3**	2.5
Impairments of goodwill and long-lived assets	**239.5**	–
Non-taxable items	**(3.1)**	(5.9)
Change in tax rates	**(3.8)**	0.1
Other	**(1.3)**	(1.3)
Total income tax (recovery) expense, combined effective tax rate of 17.3% (2015 – 25.6%)	**$ (441.3)**	$ 150.4

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

	May 7, 2016	May 2, 2015
Current tax expense	**$ 104.2**	$ 130.9
Deferred tax (recovery) expense:		
Origination and reversal of temporary differences	**(541.7)**	19.4
Change in tax rates	**(3.8)**	0.1
Total	**$ (441.3)**	$ 150.4

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

		Recognized in:			
May 7, 2016	**Opening Balance**	**Other Comprehensive Income and Equity**	**Business Acquisitions**	**Net Loss**	**Closing Balance**
Accounts payable and accrued liabilities	**$ 3.8**	**$ –**	**$ –**	**$ (0.2)**	**$ 3.6**
Employee future benefits	**96.9**	**(4.3)**	**–**	**(0.7)**	**91.9**
Equity	**11.3**	**–**	**–**	**1.0**	**12.3**
Goodwill and intangibles	**(166.1)**	**–**	**(0.5)**	**493.8**	**327.2**
Inventory	**5.2**	**–**	**–**	**(0.3)**	**4.9**
Investments	**(19.8)**	**(2.8)**	**–**	**(10.5)**	**(33.1)**
Long-term debt	**15.6**	**–**	**0.5**	**(1.9)**	**14.2**
Other assets	**(0.5)**	**–**	**–**	**(0.1)**	**(0.6)**
Other long-term liabilities	**16.8**	**–**	**–**	**3.8**	**20.6**
Property, equipment, and investment property	**(93.6)**	**–**	**(0.3)**	**35.5**	**(58.4)**
Provisions	**75.6**	**–**	**–**	**11.3**	**86.9**
Partnership deferral reserve	**2.9**	**–**	**–**	**(11.1)**	**(8.2)**
Losses	**52.3**	**–**	**–**	**24.3**	**76.6**
Other	**(0.4)**	**–**	**–**	**0.6**	**0.2**
	$ –	**$ (7.1)**	**$ (0.3)**	**$ 545.5**	**$ 538.1**
Recognized as:					
Deferred tax assets	**$ 110.9**	**$ (4.3)**	**$ –**	**$ 539.6**	**$ 646.2**
Deferred tax liabilities	**$ (110.9)**	**$ (2.8)**	**$ (0.3)**	**$ 5.9**	**$ (108.1)**

		Recognized in:			
May 2, 2015	Opening Balance	Other Comprehensive Income and Equity	Business Acquisitions	Net Loss	Closing Balance
Accounts payable and accrued liabilities	$ 6.5	$ –	$ –	$ (2.7)	$ 3.8
Employee future benefits	81.0	17.4	–	(1.5)	96.9
Equity	16.0	–	–	(4.7)	11.3
Goodwill and intangibles	(159.7)	–	–	(6.4)	(166.1)
Inventory	4.3	–	–	0.9	5.2
Investments	(13.9)	(0.3)	–	(5.6)	(19.8)
Long-term debt	17.6	–	–	(2.0)	15.6
Other assets	(0.9)	–	–	0.4	(0.5)
Other long-term liabilities	17.6	–	–	(0.8)	16.8
Property, equipment, and investment property	(70.4)	–	–	(23.2)	(93.6)
Provisions	63.6	–	–	12.0	75.6
Partnership deferral reserve	(5.0)	–	–	7.9	2.9
Losses	39.9	–	–	12.4	52.3
Other	5.8	–	–	(6.2)	(0.4)
	$ 2.4	$ 17.1	$ –	$ (19.5)	$ –
Recognized as:					
Deferred tax assets	$ 126.2	$ 17.4	$ –	$ (32.7)	$ 110.9
Deferred tax liabilities	$ (123.8)	$ (0.3)	$ –	$ 13.2	$ (110.9)

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 recovered or settled beyond the next 12 months is $426.6.

14. PROVISIONS

May 7, 2016	Lease Contracts	Legal	Environmental	Restructuring	Sales Price Adjustment	Total
Opening balance	$ 24.7	$ 9.6	$ 40.4	$ 190.3	$ –	$ 265.0
Assumed in a business acquisition	–	–	0.5	–	–	0.5
Provisions made	11.7	5.4	12.1	39.0	70.9	139.1
Provisions used	(10.4)	(6.2)	(1.4)	(66.8)	–	(84.8)
Provisions reversed	(2.7)	(1.1)	(1.7)	(21.8)	–	(27.3)
Change due to discounting	1.5	–	1.5	9.8	1.3	14.1
Closing balance	$ 24.8	$ 7.7	$ 51.4	$ 150.5	$ 72.2	$ 306.6
Current	$ 12.3	$ 7.7	$ 2.2	$ 80.5	$ 72.2	$ 174.9
Non-current	12.5	–	49.2	70.0	–	131.7
Total	$ 24.8	$ 7.7	$ 51.4	$ 150.5	$ 72.2	$ 306.6

Lease contracts

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

Legal costs

Legal provisions relate to claims of $7.7 that are outstanding as at May 7, 2016 that arose in the ordinary course of business.

Environmental costs

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

Restructuring

Restructuring provisions relate to the Company's initiatives to lower operating costs and improve financial performance. During fiscal 2016, the Company continued to review its business support network and excess distribution centre capacity. As a result, additional provisions have been recorded throughout fiscal 2016. The distribution centres have varying close dates with the final closure expected in fiscal 2018. Discounting of restructuring related provisions has been calculated using a pre-tax discount rate of 7.0 percent.

Sales price adjustment

The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement, long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this asset purchase agreement, should actual purchases for the calendar year ending 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume -driven formula. Given the purchase volumes experienced during the year ended May 7, 2016, management believes that purchases in calendar 2016 are unlikely to meet the minimum volume requirements and, accordingly, have recorded a provision to reflect the estimated adjustment to the sales price. This provision will continue to be monitored and updated for any changes to estimated calendar 2016 purchase volumes. The actual sales price adjustment could vary significantly from this estimate. Discounting of the sales price adjustment provision has been calculated using a pre-tax discount rate of 7.0 percent. See Notes 6 and 19 for further information.

15. LONG-TERM DEBT

	May 7, 2016	May 2, 2015
First mortgage loans, weighted average interest rate 5.39%, due 2016 – 2033	**$ 14.8**	$ 22.8
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	**100.0**	100.0
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	**175.0**	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	**125.0**	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	**150.0**	150.0
Sinking fund debenture, weighted average interest rate 11.63%, due 2016	**5.6**	6.2
Series 2013-1 Notes, interest rate 3.52%, due August 8, 2018	**500.0**	500.0
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	**500.0**	500.0
Senior unsecured notes, floating interest rate tied to bankers' acceptance rate, due July 14, 2016	**300.0**	300.0
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	**159.6**	152.2
Credit facilities, due November 4, 2017, floating interest rate tied to bankers' acceptance rates	**–**	221.8
Credit facilities, due November 4, 2020, floating interest rate tied to bankers' acceptance rates	**290.0**	–
	2,320.0	2,253.0
Unamortized transaction costs	**(25.2)**	(34.7)
Finance lease obligations, weighted average interest rate 5.85%, due 2016 – 2040	**58.1**	65.8
	2,352.9	2,284.1
Less amount due within one year	**341.4**	53.9
	$ 2,011.5	$ 2,230.2

First mortgage loans are secured by land, buildings and specific charges on certain assets. Finance lease obligations are secured by the related finance lease asset. Medium term notes and Series 2013-1 and 2013-2 Notes are unsecured.

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

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

Pursuant to an agreement dated April 29, 2016, Sobeys amended and restated its revolving term credit facility ("RT Facility"). The principal amount was increased from $450.0 to $650.0 and Sobeys' previous non-revolving, amortizing term credit facility was fully repaid and cancelled. As of May 7, 2016, the outstanding amount of the RT Facility was $200.0, and Sobeys had issued $54.5 in letters of credit against the RT Facility (2015 – $57.3). Interest payable on the RT Facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or LIBOR, and the facility matures on November 4, 2020.

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

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

2017	$ 329.8
2018	104.8
2019	510.0
2020	18.5
2021	295.9
Thereafter	1,061.0

Finance lease liabilities

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

	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
2017	$ 11.6	$ 3.1	$ 14.7
2018	9.3	2.5	11.8
2019	7.4	2.0	9.4
2020	6.2	1.6	7.8
2021	4.0	1.3	5.3
Thereafter	19.6	7.6	27.2
Total	$ 58.1	$ 18.1	$ 76.2

During fiscal 2016, the Company increased its finance lease obligation by $3.7 (2015 – $5.8) 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 7, 2016	May 2, 2015
Deferred lease obligation	**$ 97.6**	$ 89.9
Deferred revenue	**5.5**	5.6
Other	**5.6**	11.4
Total	**$ 108.7**	$ 106.9

17. EMPLOYEE FUTURE BENEFITS

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

Defined contribution pension plans

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

Defined benefit pension plans

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, 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 defined benefit plan typically exposes the Company to actuarial risks such as interest rate risk, mortality risk and salary risk.

Interest rate risk

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

Mortality risk

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

Salary risk

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

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

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plans	December 31, 2013	December 31, 2016
Senior Management Pension Plans	December 31, 2013	December 31, 2016
Other Benefit Plans	January 1, 2016	May 1, 2018

Multi-employer plans

The Company participates in various multi-employer pension plans which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. Approximately 16 percent of employees in the Company and of its franchisees and affiliates participate in these plans. Defined benefit multi-employer pension plans are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plans is not available due to the size and number of contributing employers in the plans. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements. The contributions made by the Company to multi-employer plans are expensed as contributions are due.

During the year ended May 7, 2016, the Company recognized an expense of $44.4 (2015 – $47.7) in operating loss, which represents the contributions made in connection with multi-employer pension plans. During fiscal 2017, the Company expects to continue to make contributions into these multi-employer pension plans.

Other benefit plans

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

Defined contribution plans

The total expense, and cash contributions, for the Company's defined contribution plans was $30.3 for the year ended May 7, 2016 (2015 – $29.4).

Defined benefit plans

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

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Defined benefit obligation				
Balance, beginning of year	**$ 904.8**	$ 841.5	**$ 180.7**	$ 174.5
Current service cost, net of employee contributions	**4.4**	3.8	**3.8**	3.6
Interest cost	**30.7**	34.4	**6.4**	7.3
Employee contributions	**–**	0.1	**–**	–
Benefits paid	**(59.7)**	(56.4)	**(6.8)**	(6.8)
Past service costs	**–**	0.5	**–**	–
Past service costs – curtailments	**(9.1)**	(6.6)	**(1.3)**	(4.4)
Settlements	**(2.2)**	(7.3)	**–**	–
Remeasurement – actuarial losses (gains) included in other comprehensive (loss) income	**2.3**	94.8	**(30.2)**	6.5
Balance, end of year	**$ 871.2**	$ 904.8	**$ 152.6**	$ 180.7

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Plan assets				
Fair value, beginning of year	**$ 734.4**	$ 722.4	**$ –**	$ –
Interest income on plan assets	**24.7**	29.7	**–**	–
Remeasurement return on plan assets (excluding amount in net interest)	**(17.8)**	40.4	**–**	–
Employer contributions	**9.3**	8.9	**6.8**	6.8
Employee contributions	**–**	0.1	**–**	–
Benefits paid	**(59.7)**	(56.4)	**(6.8)**	(6.8)
Settlements	**(2.2)**	(8.2)	**–**	–
Administrative costs	**(1.7)**	(2.5)	**–**	–
Fair value, end of year	**$ 687.0**	$ 734.4	**$ –**	$ –

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Funded status				
Total fair value of plan assets	**$ 687.0**	$ 734.4	**$ –**	$ –
Present value of unfunded obligations	**(93.6)**	(91.2)	**(152.6)**	(180.7)
Present value of partially funded obligations	**(777.6)**	(813.6)	**–**	–
Accrued benefit liabilities	**$ (184.2)**	$ (170.4)	**$ (152.6)**	$ (180.7)

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Expenses				
Current service cost, net of employee contributions	**$ 4.4**	$ 3.8	**$ 3.8**	$ 3.6
Net interest on net defined benefit liability	**6.0**	4.7	**6.4**	7.3
Administrative costs	**1.7**	2.5	**–**	–
Actuarial gains recognized	**–**	–	**–**	(0.2)
Past service costs	**–**	0.5	**–**	–
Past service costs – curtailments	**(9.1)**	(6.6)	**(1.3)**	(4.4)
Settlement loss	**–**	0.9	**–**	–
Costs	**$ 3.0**	$ 5.8	**$ 8.9**	$ 6.3

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

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

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Remeasurement effects recognized in other comprehensive (loss) income				
Return on plan assets (excluding amounts in net interest)	**$ 17.8**	$ (40.4)	$ –	$ –
Actuarial loss (gain) – experience changes	**0.8**	(0.5)	(34.6)	(9.5)
Actuarial loss – financial assumptions	**1.5**	95.3	4.4	16.2
Remeasurement effects recognized in other comprehensive (loss) income	**$ 20.1**	$ 54.4	$ (30.2)	$ 6.7

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 7, 2016):

	Pension Benefit Plans		Other Benefit Plans	
	May 7, 2016	May 2, 2015	**May 7, 2016**	May 2, 2015
Discount rate	**3.50%**	3.50%	**3.50%**	3.25%
Rate of compensation increase	**3.50%**	3.50%		

For measurement purposes, a 6.00 percent fiscal 2016 annual rate of increase in the per capita cost of covered health care benefits was assumed (2015 – 7.00 percent). The cumulative rate expectation to 2020 and thereafter is 5.00 percent.

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

The table below outlines the sensitivity of the fiscal 2016 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	Pension Benefit Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost[(1)]	Benefit Obligations	Benefit Cost[(1)]
Discount rate[(2)]	3.50%	3.50%	3.50%	3.50%
Impact of: 1% increase	$ (109.6)	$ (4.2)	$ (19.7)	$ 0.2
Impact of: 1% decrease	$ 138.2	$ 3.0	$ 24.5	$ (0.4)
Growth rate of health care costs[(3)]			6.00%	6.00%
Impact of: 1% increase			$ 13.5	$ 1.4
Impact of: 1% decrease			$ (11.2)	$ (1.2)

(1) Reflects the impact on the current service cost, interest cost, and net interest on defined benefit liability (asset).

(2) Based on a weighted average of discount rates related to all plans.

(3) Gradually decreasing to 5.00 percent in 2020 and remaining at that level thereafter.

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

	May 7, 2016	May 2, 2015
Canadian equity funds	**10.3%**	18.2%
Foreign equity funds	**8.6%**	20.4%
Fixed income funds	**80.9%**	60.5%
Net working capital	**0.2%**	0.9%
Total investments	**100.0%**	100.0%

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

	May 7, 2016	% of Plan Assets	May 2, 2015	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	**$ 10.8**	**1.6%**	$ 22.3	3.0%

All of the securities are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The actual return on plan assets was $5.2 for the year ended May 7, 2016 (2015 – $67.6).

Management's best estimate of contributions expected to be paid to the defined benefit pension plans during the annual period beginning on May 8, 2016 and ending on May 6, 2017 is $10.0.

18. CAPITAL STOCK

	Number of Shares	
Authorized	May 7, 2016	May 2, 2015
2002 Preferred shares, par value of $25 each, issuable in series	**991,980,000**	991,980,000
Non-Voting Class A shares, without par value	**768,105,849**	771,132,168
Class B common share, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding	Number of Shares	May 7, 2016	May 2, 2015
Non-Voting Class A	**173,537,901**	**$ 2,037.8**	$ 2,102.1
Class B common	**98,138,079**	**7.3**	7.3
Total		**$ 2,045.1**	$ 2,109.4

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 2016, the Company paid common dividends of $109.4 (2015 – $99.7) to its equity holders. This represents a payment of $0.40 per share (2015 – $0.36 per share) for common shareholders.

Share split

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

Normal course issuer bid

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

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

During the year ended May 2, 2015, 1,548,070 Class B common shares were converted into 1,548,070 Non-Voting Class A shares.

19. OTHER (LOSS) INCOME, NET

	May 7, 2016	May 2, 2015
Net (loss) gain on disposal of assets	$ (39.6)	$ 66.9
Lease revenue from owned property	31.7	31.4
Dilution (losses) gains	(3.0)	0.1
Total	$ (10.9)	$ 98.4

As discussed in Note 14, management has recognized a loss on sale of $70.9 related to the disposed assets based on its sales price adjustment under the terms of the asset purchase agreement.

20. EMPLOYEE BENEFITS EXPENSE

	May 7, 2016	May 2, 2015
Wages, salaries and other short-term employment benefits	$ 3,058.0	$ 3,067.8
Post-employment benefits	29.8	29.5
Termination benefits	3.6	5.8
Total	$ 3,091.4	$ 3,103.1

21. FINANCE COSTS, NET

	May 7, 2016	May 2, 2015
Finance income		
Interest income from cash and cash equivalents	$ 1.4	$ 1.4
Investment income	1.2	1.2
Accretion income	0.7	–
Total finance income	3.3	2.6
Finance costs		
Interest expense on financial liabilities measured at amortized cost	113.8	136.7
Fair value losses (gains) on forward contracts	0.2	(0.5)
Losses on cash flow hedges reclassified from other comprehensive income (loss)	0.2	0.6
Net pension finance costs	12.4	12.0
Accretion expense on provisions	14.1	8.9
Total finance costs	140.7	157.7
Finance costs, net	$ 137.4	$ 155.1

22. EARNINGS PER SHARE

	May 7, 2016	May 2, 2015
Weighted average number of shares used in basic earnings per share	273,851,466	276,987,717
Shares deemed to be issued for no consideration in respect of stock-based payments	195,738	167,385
Weighted average number of shares used in diluted earnings per share	274,047,204	277,155,102

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

23. BUSINESS ACQUISITIONS

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

The following table represents the amounts of identifiable assets and liabilities from resulting acquisitions for the year ended May 7, 2016 and May 2, 2015:

	May 7, 2016	May 2, 2015
Stores and retail gas locations		
Receivables	$ 12.0	$ –
Inventories	17.5	5.2
Property and equipment	20.2	6.0
Intangibles	7.0	0.1
Goodwill	39.8	4.5
Provisions	(0.5)	(0.1)
Other liabilities	(5.3)	(4.3)
	90.7	11.4
Prescription files		
Intangibles	–	0.3
Cash consideration	$ 90.7	$ 11.7

From the date of acquisition, the businesses acquired contributed sales of $207.6 and net earnings of $1.8 for the year ended May 7, 2016.

Co-op Atlantic acquisition

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

During fiscal 2016, management finalized the purchase price allocation related to the Co-op Atlantic acquisition. As a result, the consolidated balance sheet as at May 7, 2016 includes the following fair value of the identifiable assets acquired and liabilities assumed:

Receivables	$ 11.8
Inventories	9.4
Property and equipment	7.8
Intangibles	0.9
Provisions	(0.5)
Other liabilities	(4.8)
Total identifiable net assets	$ 24.6

Excess consideration paid over identifiable net assets acquired allocated to goodwill	$ 16.8

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

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

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

24. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

Franchisees and affiliates

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

Sobeys has a guarantee contract under the terms of which, should certain franchisees and affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 or 9.9 percent (2015 – $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 7, 2016, the amount of the guarantee was $7.0 (2015 – $7.0).

Sobeys has guaranteed certain equipment leases of its franchisees and affiliates. Under the terms of the guarantee should franchisees and affiliates be unable to fulfill their equipment lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $145.0 on a cumulative basis. 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 franchisees and affiliates for the purchase and installation of equipment. Under the terms of the contract, should franchisees and affiliates be unable to fulfill their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 or 10.0 percent (2015 – $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 franchisees and affiliates. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SEs. As at May 7, 2016, the amount of the guarantee was $6.0 (2015 – $6.0).

Other

At May 7, 2016, the Company was contingently liable for letters of credit issued in the aggregate amount of $66.6 (2015 – $69.8).

Sobeys, through its subsidiaries, has guaranteed the payment of obligations under certain commercial development agreements. As at May 7, 2016, Sobeys has guaranteed $43.5 in obligations related to these agreements.

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 its obligations under the lease. The remaining term of the lease is four years with an aggregate obligation of $13.4 (2015 – $16.5). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Commitments

Operating leases, as lessee

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

The total net, future minimum rent payable under the Company's operating leases as of May 7, 2016 is approximately $4,043.8. This reflects a gross lease obligation of $4,965.6 reduced by expected sub-lease income of $921.8. 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
2017	$ 246.0	$ 351.5	$ 127.5	$ 127.5
2018	229.8	326.0	127.1	127.1
2019	211.8	298.4	122.3	122.3
2020	195.5	275.9	122.0	122.0
2021	171.5	245.5	121.7	121.7
Thereafter	928.2	1,407.3	1,440.4	1,440.4

The Company recorded $542.3 (2015 – $517.4) as an expense for minimum lease payments for the year ended May 7, 2016 in the consolidated statements of (loss) earnings. The expense was offset by sub-lease income of $168.2 (2015 – $161.8), and a further $12.3 (2015 – $11.5) 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 bases on which contingent rent is receivable.

Rental income for the year ended May 7, 2016 was $31.4 (2015 – $29.7) and was recognized as other (loss) income, net in the consolidated statements of (loss) earnings. In addition, the Company recognized $0.3 of contingent rent for the year ended May 7, 2016 (2015 – $1.7).

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

	Third Parties
2017	$ 25.6
2018	22.3
2019	19.8
2020	16.6
2021	14.7
Thereafter	89.8

Contingent liabilities

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to Lumsden Brothers Limited, a wholesale subsidiary of Sobeys, and the Goods and Service Tax ("GST"). The reassessment related to GST on sales of tobacco products to status Indians. CRA asserts that Sobeys was obliged to collect GST on sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was $13.6. Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. The matter is still under dispute and Sobeys has filed a Notice of Appeal with the Tax Court of Canada. Accordingly, Sobeys has not recorded in its statements of (loss) 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, with which the Company is involved, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

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

25. FINANCIAL INSTRUMENTS

Credit risk

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

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

The Company mitigates credit risk associated with its trade receivables and loans receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. The Company regularly monitors collection performance and pledged security for all of its receivables and loans and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building, as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with counterparties that are dual rated and have a credit rating of "A" or better from a recognized credit rating agency 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 7, 2016	May 2, 2015
0 – 30 days	**$ 398.5**	$ 372.9
31 – 90 days	**43.7**	54.4
Greater than 90 days	**73.1**	94.2
Total receivables before allowance for credit losses	**515.3**	521.5
Less: allowance for credit losses	**(25.9)**	(21.8)
Receivables	**$ 489.4**	$ 499.7

Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses in the consolidated statements of (loss) earnings. Receivables are classified as current on the consolidated balance sheet as of May 7, 2016.

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

	May 7, 2016	May 2, 2015
Allowance, beginning of year	**$ 21.8**	$ 20.3
Provision for losses	**10.2**	12.5
Recoveries	**(3.1)**	(4.0)
Write-offs	**(3.0)**	(7.0)
Allowance, end of year	**$ 25.9**	$ 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 7, 2016:

	2017	2018	2019	2020	2021	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	$ 2.3	$ 2.3	$ 2.3	$ 12.9	$ –	$ –	$ 19.8
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	2,173.1	–	–	–	–	–	2,173.1
Long-term debt	434.7	203.5	587.3	88.9	359.4	1,541.1	3,214.9
Total	$ 2,610.1	$ 205.8	$ 589.6	$ 101.8	$ 359.4	$ 1,541.1	$ 5,407.8

Fair value of financial instruments

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

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

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

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

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

There were no transfers between classes of the fair value hierarchy during the year ended May 7, 2016.

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

Long-term debt	May 7, 2016	May 2, 2015
Total carrying amount	**$ 2,352.9**	$ 2,284.1
Total fair value	**$ 2,474.9**	$ 2,477.3

As at May 7, 2016, the fair value hierarchy includes financial assets at fair value through profit or loss of $ nil, $2.1, and $ nil for Levels 1, 2 and 3, respectively, (2015 – $4.4, $0.1, and $ nil).

As at May 7, 2016, the fair value hierarchy includes financial assets at available for sale of $24.7 for Level 1 (2015 – $25.1).

As at May 7, 2016, the fair value hierarchy includes financial liabilities at fair value through profit or loss of $ nil, $0.9, and $ nil for Levels 1, 2 and 3, respectively, (2015 – $ nil, $5.5, and $ nil).

Derivative financial instruments

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

Cash flow hedges

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

As of May 7, 2016, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of $2.1 (2015 – $0.1) and liabilities of $0.9 (2015 – $5.5).

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

Interest rate risk

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

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The Company utilized 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. Approximately 29.5 percent (2015 – 27.5 percent) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings or loss is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the year. For the year ending May 7, 2016, the Company's average outstanding unhedged floating rate debt was $689.1 (2015 – $1,270.3). An increase (decrease) of 25 basis points would have impacted net (loss) earnings by $1.2 ($1.2) (2015 – $2.2 ($2.2)) as a result of the Company's exposure to interest rate fluctuations on its unhedged floating rate debt.

During the first quarter of fiscal 2015, Sobeys entered into an amortizing interest rate swap for an original notional amount of $598.7 at a fixed interest rate of 1.4 percent effective May 12, 2014 to hedge the interest rate on a portion of Sobeys' non-revolving, amortizing term credit facility. The interest rate swap matured on December 31, 2015.

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, British Pounds 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 or loss until the variability in cash flows being hedged is recognized in net earnings or loss in future accounting periods.

The Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net (loss) earnings by $ nil ($ nil) (2015 – $ nil ($ nil)) and other comprehensive (loss) income by $6.0 ($6.0) (2015 – $4.2 ($4.2)) for foreign currency derivatives in place at year end.

Sobeys entered into seven Euro/Canadian dollar forward contracts during the first quarter of fiscal 2015 at an approximate Canadian dollar value at inception of $58.0. The forward contracts were entered into to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in Euros. The remaining forward contract has a notional amount of $5.9 and has a maturity date of September 1, 2016.

On January 30, 2015, Sobeys unwound a floating-for-floating currency swap that originated in July 2008 at a gain of $0.7 and entered into a new floating-for-floating currency swap with a fixed rate of 1.2775 Canadian dollar/ U.S. dollar to mitigate the currency risk associated with a U.S. dollar denominated variable rate loan. The terms of the swap match the terms of the variable rate loan.

During the year ended May 7, 2016, Sobeys entered into seven Euro/Canadian dollar forward contracts at an approximate Canadian dollar value at inception of $68.6. The forward contracts were entered into to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in Euros. The remaining forward contracts have a notional amount of $27.6 and have maturities ranging from August 15, 2016 to March 1, 2017.

Market risk

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in the price of the investment. The Company estimates that a 10 percent change in the market value of its investments that trade on a recognized stock exchange would impact net (loss) earnings by $ nil (2015 – $ nil) and other comprehensive income by $2.1 (2015 – $2.1).

26. SEGMENTED INFORMATION

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

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

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

No asymmetrical allocations have been applied between segments.

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

	May 7, 2016	May 2, 2015
Segmented operating (loss) income		
Food retailing	**$ (2,509.2)**	$ 639.9
Investments and other operations		
Crombie REIT	**38.9**	30.6
Real estate partnerships	**46.7**	54.7
Other operations, net of corporate expenses	**5.1**	17.2
	90.7	102.5
Total	**$ (2,418.5)**	$ 742.4

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

	May 7, 2016	May 2, 2015
Total operating (loss) income	**$ (2,418.5)**	$ 742.4
Finance costs, net	**137.4**	155.1
Total	**$ (2,555.9)**	$ 587.3

	May 7, 2016	May 2, 2015
Total assets by segment		
Food retailing	**$ 8,412.3**	$ 10,774.7
Investments and other operations	**675.2**	686.0
Total	**$ 9,087.5**	$ 11,460.7

27. STOCK-BASED COMPENSATION

Deferred stock units

Members of the Board of Directors and certain employees may elect to receive all or any portion of their fees or a portion of their compensation 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' or employees' 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 or the employee has retired. 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 (loss) earnings. At May 7, 2016, there were 426,792 (2015 – 362,610) DSUs outstanding and the total carrying amount of the liability was $9.0 (2015 – $12.1). During the year ended May 7, 2016, the compensation income (expense) was $2.1 (2015 – $(4.0)).

Performance share unit plan

The Company awarded certain employees a target number of performance share units ("PSUs") that track the Company's Non-Voting Class A share prices over a three-year period. The number of PSUs that vest under an award is dependent on time and the achievement of specific performance measures. On March 9, 2016, as approved by the Human Resources ("HR") Committee, the terms of payout for PSUs changed from cash settled to equity settled. The PSUs were revalued using the market price for the Company's Non-Voting Class A shares on March 8, 2016. Upon vesting, each employee is entitled to receive the Company's Non-Voting Class A shares equal to the number of their vested PSUs. The weighted average fair value of $25.71 per PSU was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$26.80
Expected life	2.75 years
Risk-free interest rate	0.64%
Expected volatility	15.23%
Dividend yield	1.49%

At May 7, 2016, there were 939,555 (2015 – 811,626) PSUs outstanding. During the year ended May 7, 2016, the compensation expense was $1.2 (2015 – $9.2) with the amortization of cost over the vesting period of three years. The total increase in contributed surplus during the year ended May 7, 2016 in relation to the PSU compensation cost was $11.7. For the year ended May 2, 2015, the Company had a liability with a carrying amount of $12.1 related to the PSU compensation costs.

Phantom performance option plan

Prior to fiscal 2014, Sobeys' executives participated in the Sobeys phantom performance option plan ("PPOP") which provided for the issuance of phantom performance options ("PPOs"). The PPOs are subject to a performance period or term of five years. Sobeys PPOs were granted to officers and senior management of Sobeys as approved by the HR Committee. Grants vest over a four-year period at a rate of 25 percent per year. The PPOP contains a liquidity provision which allows for partial payouts of the 'in-the-money' position during the performance period. During fiscal 2014, the plan was converted to a cash settled share based payment with the growth calculation based on the five day average Empire Non-Voting Class A share value following the announcement of the Company's fiscal financial performance compared to the five day average following the announcement of the Company's fiscal financial performance of the preceding year. At May 7, 2016, there were 1,497,393 options (2015 – 2,685,669) outstanding and the carrying amount of the liability associated with these options was $ nil (2015 – $24.6).

Empire restricted share unit plan

Empire created a Restricted Share Unit Plan for certain executives and other employees joining the Company as a result of the acquisition of Canada Safeway to replace lost value of unvested Safeway stock options and stock appreciation rights that existed at the closing of the Canada Safeway acquisition in November 2013. The Restricted Share Unit Plan is a cash settled share based payment that provides a cash payout value of a restricted share unit ("RSU") equal to the market value of a Non-Voting Class A share at the time of vesting assuming reinvestment of any dividends paid since the date of grant. Following closing of the Canada Safeway acquisition in fiscal 2014, the HR Committee issued RSUs based on a Non-Voting Class A share value of $25.33. The granted RSUs vest in stages over three years. The Restricted Share Unit Plan also provides that the HR Committee may allow RSUs to be converted to deferred stock units if the participant elects prior to vesting. At May 7, 2016, there were 260,909 (2015 – 332,400) units outstanding and the carrying amount of the liability associated with these units was $4.9 (2015 – $7.0).

Stock option plan

During fiscal 2016, the Company granted an additional 753,845 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The number of options, weighted average fair value of options, and share price have been restated to reflect the three-for-one share split (Note 18). The weighted average fair value of $4.32 per option was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$30.13
Expected life	7.83 years
Risk-free interest rate	1.01%
Expected volatility	15.32%
Dividend yield	1.33%

The compensation cost for the year ended May 7, 2016 was $3.6 (2015 – $4.0) with amortization of the cost over the vesting period of four years. The total increase in contributed surplus in relation to the stock option compensation cost was $3.6 (2015 – $4.0).

The outstanding options at May 7, 2016 were granted at prices between $17.33 and $30.87 and expire between July 2018 and March 2024 with a weighted average remaining contractual life of 5.89 years. Stock option transactions during fiscal 2016 and 2015 were as follows:

	2016		2015	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**3,364,995**	**$ 24.86**	2,803,098	$ 24.85
Granted	**753,845**	**30.13**	977,967	22.43
Purchased	**–**	**–**	–	–
Exercised	**(135,712)**	**20.09**	(262,722)	17.04
Forfeited	**(327,806)**	**26.90**	(153,348)	22.59
Balance, end of year	**3,655,322**	**$ 25.94**	3,364,995	$ 24.86
Stock options exercisable, end of year	**2,206,342**		694,731	

The following table summarizes information about stock options outstanding at May 7, 2016:

	Options Outstanding			Options Exercisable	
Year Granted	**Number of Outstanding Options**	**Weighted Average Remaining Contractual Life(1)**	**Weighted Average Exercise Price**	**Number Exercisable at May 7, 2016**	**Weighted Average Exercise Price**
2011	**14,418**	**2.19**	**17.33**	**14,418**	**17.33**
2012	**10,392**	**3.19**	**18.13**	**10,392**	**18.13**
2013	**14,262**	**4.19**	**17.98**	**14,262**	**17.98**
2014	**2,082,441**	**5.44**	**26.30**	**1,561,831**	**26.30**
2015	**887,940**	**6.14**	**22.43**	**443,971**	**22.43**
2016	**645,869**	**7.16**	**30.11**	**161,468**	**30.11**
Total	**3,655,322**	**5.89**	**$ 25.94**	**2,206,342**	**$ 25.65**

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

On May 30, 2014, Crombie REIT closed a bought-deal public offering of units at a price of $13.25 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased approximately $40.0 of Class B LP units (which are convertible on a one-for-one basis into units of Crombie REIT). Following the conversion of Crombie REIT debentures during fiscal 2015, and accounting for the subscription of Class B LP units, the Company's interest in Crombie REIT decreased from 41.6 to 41.5 percent.

The Company leased certain real property from Crombie REIT during the year at amounts in management's opinion which approximate fair market value that would be incurred if leased from a third party. 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. The aggregate net payments under these leases, which are measured at exchange amounts, totaled approximately $164.9 (2015 – $136.7).

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

At May 7, 2016, investments included $24.7 (2015 – $25.1) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of $1.2 for the year ended May 7, 2016 (2015 – $1.2). These amounts are included in finance costs, net in the consolidated statements of (loss) earnings.

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

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

During the second quarter of fiscal 2015, the Company exited a sub-lease agreement with Crombie REIT and incurred a charge of $2.7. This charge is included in selling and administrative expenses on the consolidated statements of (loss) earnings.

During the year ended May 2, 2015, Sobeys, through its wholly-owned subsidiaries, sold ten properties and leased back eight properties from Crombie REIT. Cash consideration received for the properties sold was $105.8, resulting in a pre-tax gain of $1.2, which has been recognized in the consolidated statements of (loss) earnings. The majority of proceeds received were used to repay bank borrowings.

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and lease back certain properties (Note 30).

Key management personnel compensation

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

Key management personnel compensation is comprised of:

	May 7, 2016	May 2, 2015
Salary, bonus and other short-term employee benefits	$ 9.6	$ 17.9
Post-employment benefits	1.9	1.3
Termination benefits	1.5	–
Share-based payments	6.1	14.3
Total	$ 19.1	$ 33.5

Indemnities

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

29. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of the Company. There have been no changes to the Company's objectives during the year ended May 7, 2016.

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 7, 2016	May 2, 2015
Long-term debt due within one year	$ 341.4	$ 53.9
Long-term debt	2,011.5	2,230.2
Funded debt	2,352.9	2,284.1
Less cash and cash equivalents	(264.7)	(295.9)
Net funded debt	2,088.2	1,988.2
Shareholders' equity, net of non-controlling interest	3,621.0	5,983.8
Capital under management	$ 5,709.2	$ 7,972.0

Although the Company does not include operating leases in its definition of capital, the Company does give consideration to its obligations under operating leases when assessing its total capitalization.

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and the purchase of land bank sites for future store construction. The Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its investments and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. The cash flow is supplemented, when necessary, through the 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 7, 2016	May 2, 2015
Funded debt to total capital[1]	**39.4%**	27.6%
Funded debt to EBITDA[2]	**(1.2)x**	1.9x
EBITDA to interest expense[2]	**(17.1)x**	8.9x

(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 53 and 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, three 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 53 and 52 weeks); ii) lease adjusted debt/EBITDAR – calculated as adjusted total debt plus eight times rent divided by EBITDAR (as defined by the credit agreements and for the previous 53 and 52 weeks); and iii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (as defined by the credit agreements and for the previous 53 and 52 weeks). The Company was in compliance with these covenants during the year.

30. SUBSEQUENT EVENTS

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land owned by Empire. Crombie REIT will also invest approximately $58.8 in renovations or expansions of 10 Sobeys retail locations already in Crombie REIT's portfolio. In addition to the cash, Crombie REIT will issue to Sobeys approximately $93.4 in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. Sobeys will subsequently sell its Class B LP units to Empire on a tax deferred basis. Net cash proceeds to Sobeys from these transactions will be approximately $324.6, resulting in a nominal pre-tax gain, which will be used to repay senior unsecured notes coming due. The transaction was approved on June 28, 2016 by the unitholders of Crombie REIT, excluding Empire and its affiliates, and is subject to regulatory approval.

Subsequent to May 7, 2016, Sobeys sold and leased back a property from a third party. Cash proceeds received on the sale was $24.0, resulting in a pre-tax gain of $1.1.