EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 13 AND 52 WEEKS ENDED MAY 6, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 13 and 52 weeks ended May 6, 2017 compared to the 14 and 53 weeks ended May 7, 2016. It should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the 52 weeks ended May 6, 2017, and the 53 weeks ended May 7, 2016. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The audited consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD"). These consolidated financial statements include the accounts of Empire and its subsidiaries and structured entities ("SEs") which the Company is required to consolidate. The information contained in this MD&A is current to June 28, 2017, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

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

- The Company's expectations regarding the impact of Project Sunrise, including expected annualized cost savings, efficiencies resulting from this transformation initiative, and the expected timing and amount of one-time costs, which could be impacted by several factors, including the time required by the Company to complete the realignment as well as the factors identified under the heading "Risk Management";

- The Company's expectations relating to the effects of operational challenges primarily in Western Canada and sales erosion across the store network, which may be impacted by a number of factors including the effectiveness of future mitigating strategies employed and continued competitive intensity;

- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in market prices;

- The Company's assessment that its operational and capital structure is sufficient to meet its ongoing business requirements, which could be impacted by changes in the current economic environment;

- Management's belief that a downgrade in its credit ratings will not impede liquidity required for current contractual obligations, day-to-day operations or long-term outlook, which could be impacted by the necessity to re-finance existing debt, access to capital markets and fluctuations in interest rates; and

- The Company's expectation that its cash and cash equivalents on hand, unutilized credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment.

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

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

OVERVIEW OF THE BUSINESS

Empire's key businesses and financial results are segmented into two separate reportable segments: (1) Food retailing and (2) Investments and other operations. With approximately $23.8 billion in sales and $8.7 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 125,000 people.

Food Retailing

Empire's Food retailing segment is carried out through Sobeys, a wholly-owned subsidiary. Proudly Canadian, with headquarters in Stellarton, Nova Scotia, Sobeys has been serving the food shopping needs of Canadians for 110 years, since 1907. Sobeys owns, affiliates or franchises more than 1,500 stores in all 10 provinces under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo., Thrifty Foods and Lawton's Drug Stores as well as more than 350 retail fuel locations. Sobeys' purpose is to help Canadians *Eat Better, Feel Better and Do Better.*

Strategic Imperatives(1)

In the fourth quarter of fiscal 2017, the Company launched Project Sunrise, a comprehensive three year transformation intended to simplify the organizational structure and reduce costs. The transformation is expected to deliver approximately $500 million in annualized cost savings by fiscal 2020 that will allow the Company to grow its earnings and re-invest in the business, growing both its sales and earnings. The organizational structure changes will create a nationally managed company with the ability to leverage its $24 billion national scale.

Including the two Project Sunrise elements, the Company is focused on four primary initiatives:

> *(i) Organizational Structure*
>
> Changes in the Company's organizational structure include collapsing multiple, independent regions into a largely national, functionally-led structure. This will simplify the way the Company conducts business and will result in a reduced workforce. Management has taken the first step in transitioning to the new organizational structure with the appointment of a new senior leadership team. The intention of the transformation initiative is to address the complex organizational structure which has resulted in significant duplication and lack of clear, defined accountabilities. These complexities add not only unnecessary costs, but prevent nimble and responsive decision making to support the needs of the customers and capitalize on changes in the marketplace.

(1) The following represents forward looking information described under the "Forward-Looking Information" section of this MD&A.

(ii) Cost Reduction

Management has undertaken a detailed assessment of cost reduction opportunities available to the Company, including benchmarking its costs against other businesses, and is executing against a phased plan to permanently reduce its cost base. Early progress on the cost initiatives is progressing well and it is expected that initial savings will be reflected in results in the third quarter of fiscal 2018. Cost reductions will be sourced from reductions in headcount arising from organizational structure changes and process improvement, targeting specific enterprise-wide efficiencies and productivity initiatives and simplifying how the Company collaborates with vendors while leveraging its purchasing scale as a $24 billion nationally managed Company.

(iii) Customer Focus

Significant work is required to better understand Sobeys' brands banner positioning, customers and marketing initiatives as these are critical to the success of any retailer and recent approaches to customers have been disappointing. Management is undertaking a comprehensive review of its customers, the relative positioning of its categories and store banners and will develop and implement a strategy that will improve its proposition to Canadian grocery customers, allowing the Company to compete more effectively and grow both its top line sales and margins.

(iv) West Business Unit

Challenges faced in the Western business unit have resulted in significant decreases in sales and profitability, arising from the integration of the Canada Safeway acquisition. In the short term, management has been focused on improving store execution and promotional mix and the results in the fourth quarter were more positive as comparative sales improved and were more consistent with rates realized across the rest of the business.There is a significant amount of improvement still required to return this business to acceptable levels of profitability.

The full redesign and execution of the organizational structure is expected to be completed by the end of calendar 2017. As a result of this transformation initiative, the Company incurred costs of $15.8 million in the fourth quarter of fiscal 2017. In total, the Company expects to incur approximately $200 million in one-time costs associated with severance, relocation, consulting and minor system developments, the bulk of which will be incurred in the first half of fiscal 2018.

Other Significant Items

Real Estate Divestitures

On June 29, 2016, the Company and its wholly-owned subsidiaries completed an agreement with Crombie Real Estate Investment Trust ("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. Crombie REIT also invested approximately $58.8 million in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. See the "Related Party Transactions Section" of this MD&A for further detail.

Manufacturing Sales Adjustments

The Company disposed of certain manufacturing facilities in fiscal 2015 and entered into long-term supply agreements that contain minimum purchase volume requirements that require adjustments in prices paid to vendors if these minimum commitments are not met. As at May 6, 2017, the provision for adjustments related to these minimum purchase requirements is $12.0 million. The Company has so far paid $55.2 million related to these long-term supply agreements where minimum purchase volume requirements for calendar 2016 were not met.

Distribution Centre Restructuring

Costs of $4.3 million and $9.6 million were incurred for the 13 and 52 weeks ended May 6, 2017 (2016 – $2.2 million and $7.9 million) related to distribution centre restructuring.

Impairments of Goodwill and Long-Lived Assets

In fiscal 2016, management determined there were indicators of impairment in the West business unit as the result of significant negative trends in operating results of the Sobeys West operating segment and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. In the fourth quarter of fiscal 2016, the Company recorded impairments of long-lived assets and goodwill of $10.9 million and $1,430.5 million, respectively. Including impairments recorded earlier in fiscal 2016, total impairments of long-lived assets and goodwill for fiscal 2016 was $3,027.1 million. At the end of fiscal 2016, there was no remaining goodwill within the West business unit.

Investments and Other Operations

Empire's investments and other operations segment, as of May 6, 2017, included:

1. A 41.5 percent (40.3 percent fully diluted) equity accounted interest in Crombie REIT, an open-ended Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 281 income-producing properties across Canada, comprising approximately 19.1 million square feet with a strategy to own, operate and develop a portfolio of high quality grocery and drug store anchored shopping centres, freestanding stores and mixed use developments primarily in Canada's top urban and suburban markets; and

2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 39.0 percent equity accounted interest in GDC Investments 4, L.P., a 42.1 percent equity accounted interest in GDC Investments 6, L.P., a 39.0 percent equity accounted interest in GDC Investments 7, L.P., a 37.1 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar").

STRATEGIC DIRECTION

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

The Company is focused on restoring core strengths in food retailing and related real estate by directing its energy and capital towards growing long-term sustainable value through cash flow, income growth and cost reductions. While our core businesses are admired by Canadians and well established, they also offer Empire geographical diversification across Canada, which is considered by management to be a source of strength. Going forward, the Company intends to direct its resources towards the most promising opportunities such as the transformation initiative, Project Sunrise, improving the Company's proposition to customers and restoring profitability in the West business unit.

SUMMARY RESULTS – FOURTH QUARTER

($ in millions, except per share amounts)		13 Weeks Ended May 6, 2017		14 Weeks Ended May 7, 2016		$ Change	% Change
Sales	**$**	**5,798.9**	**$**	6,283.2	$	(484.3)	(7.7)%
Gross profit[1][2]		**1,420.9**		1,546.2		(125.3)	(8.1)%
EBITDA[2]		**171.7**		(1,047.2)		1,218.9	116.4 %
Adjusted EBITDA[2]		**193.9**		269.6		(75.7)	(28.1)%
Operating income (loss)		**61.4**		(1,160.2)		1,221.6	105.3 %
Finance costs, net		**27.7**		36.3		(8.6)	(23.7)%
Income tax expense (recovery)		**1.4**		(256.7)		258.1	100.5 %
Non-controlling interest		**2.8**		2.8		-	-
Net earnings (loss)[3]		**29.5**		(942.6)		972.1	103.1 %
Adjusted net earnings [2][3]		**50.2**		95.3		(45.1)	(47.3)%
Basic earnings per share							
Net earnings (loss)[3][4]	**$**	**0.11**	$	(3.47)	$	3.58	
Adjusted net earnings [3]	**$**	**0.18**	$	0.35	$	(0.17)	
Basic weighted average number of shares outstanding (in millions)		**271.7**		271.7			
Diluted earnings per share							
Net earnings (loss)[3][4]	**$**	**0.11**	$	(3.47)	$	3.58	
Adjusted net earnings[3]	**$**	**0.18**	$	0.35	$	(0.17)	
Diluted weighted average number of shares outstanding (in millions)		**271.7**		271.7			
Dividend per share		**0.1025**		0.1000			

(% of sales)	13 Weeks Ended May 6, 2017	14 Weeks Ended May 7, 2016
Gross profit	**24.5%**	24.6%
EBITDA	**3.0%**	(16.7)%
Adjusted EBITDA	**3.3%**	4.3%
Operating income	**1.1%**	(18.5)%
Net earnings[3]	**0.5%**	(15.0)%
Adjusted net earnings[3]	**0.9%**	1.5%

(1) Gross profit amounts and corresponding ratios are calculated using Food retailing segment amounts.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) Net of non-controlling interest.
(4) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

Sales

All sales are generated by the Food retailing segment.

The decrease in sales for the 13 weeks ended May 6, 2017 was primarily the result of:

- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million in sales;
- Retail food price deflation; and
- Price sensitivity by consumers and their continued shift to improved value.

During the 13 weeks ended May 6, 2017, same-store sales[1] decreased 1.1 percent and excluding the impact of fuel sales decreased 1.6 percent from the same period last year.

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

Gross Profit

The decrease in gross profit during the 13 weeks ended May 6, 2017 was a result of the factors impacting sales. As a percentage of sales, gross profit remained relatively flat compared to the same quarter last year, and increased by 80 basis points compared to the third quarter in fiscal 2017. This is primarily the result of focused execution along with the positive impact of seasonality.

EBITDA

EBITDA increased in the 13 weeks ended May 6, 2017, largely due to impairments recorded for goodwill and long-lived assets in the prior year.

Adjusted EBITDA decreased in the 13 weeks ended May 6, 2017, mainly as a result of the previously mentioned factors affecting sales, as well as increases in selling and administrative expenses, including increased labour costs and promotional spending. Selling and administrative expenses as a percentage of sales increased due to the impact of the lower sales.

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	$ Change
EBITDA	**$ 171.7**	$ (1,047.2)	$ 1,218.9
Adjustments:			
Costs related to Project Sunrise	**15.8**	-	
Distribution centre restructuring	**4.3**	2.2	
Network rationalization (reversals)	**3.0**	(13.9)	
Historical organizational realignment reversals	**(0.9)**	(0.4)	
Impairments of goodwill and long-lived assets	**-**	1,296.8	
Loss on disposal of manufacturing facilities	**-**	32.1	
	22.2	1,316.8	(1,294.6)
Adjusted EBITDA	**$ 193.9**	$ 269.6	$ (75.7)

Operating Income

For the 13 weeks ended May 6, 2017, Sobeys' contribution to operating income increased primarily as a result of the impairments of goodwill and long-lived assets recorded in the prior year. This was slightly offset by an increase in selling and administrative expenses in the current year and an additional week of operations in fiscal 2016.

Operating income from the Investment and other operations segment decreased primarily as a result of a group of properties sold by Crombie REIT in their first quarter of fiscal 2016 and the reversals of deferred gains in the prior year.

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	$ Change
Consolidated operating income (loss)			
Sobeys contribution	**$ 52.5**	$ (1,184.9)	$ 1,237.4
Investment and other operations			
Crombie REIT[(1)]	**$ 7.7**	$ 18.1	$ (10.4)
Real estate partnerships[(2)]	**4.9**	2.8	2.1
Other operations, net of corporate expenses	**(3.7)**	3.8	(7.5)
	$ 8.9	$ 24.7	$ (15.8)
	$ 61.4	$ (1,160.2)	$ 1,221.6

(1) 41.5 percent equity accounted interest in Crombie REIT (May 7, 2016 – 41.5 percent interest).
(2) Interests in Genstar.

Finance Costs

For the fourth quarter of fiscal 2017, net finance costs decreased from the same period last year. Interest coverage(1) in the fourth quarter increased to 2.4 times from (39.2) times in the fourth quarter of fiscal 2016, as a result of increased operating income. Excluding the impairments of goodwill and long-lived assets, interest coverage would have been 4.6 times in the prior year.

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

Income Taxes

The Company's effective income tax rate for the fourth quarter was 4.2 percent compared with 21.5 percent in the same period last year. Excluding the impact of the fiscal 2016 impairments, the effective income tax rate would have been 23.0 percent in the same period last year. The decrease is primarily attributed to the re-measurement of the Company's deferred income tax provision completed during the quarter and the impact of capital gain transactions undertaken.

Net Earnings

For the 13 weeks ended May 6, 2017, the increase in net earnings was primarily a result of impairments of goodwill and long-lived assets and a provision related to the previous sale of manufacturing facilities.

($ in millions, except per share amounts)		**13 Weeks Ended May 6, 2017**		14 Weeks Ended May 7, 2016		$ Change
Net earnings (loss)(1)	**$**	**29.5**	$	(942.6)	$	972.1
EPS(2)(3) (fully diluted)	**$**	**0.11**	$	(3.47)	$	3.58
Adjustments(4):						
Costs related to Project Sunrise		**11.3**		-		
Intangible amortization associated with the Canada Safeway acquisition		**4.7**		4.8		
Distribution centre restructuring		**3.1**		1.6		
Network rationalization (reversals)		**2.2**		(10.1)		
Historical organizational realignment reversals		**(0.6)**		(0.3)		
Impairments of goodwill and long-lived assets		**-**		1,016.3		
Loss on disposal of manufacturing facilities		**-**		25.6		
		20.7		1,037.9		(1,017.2)
Adjusted net earnings(1)	**$**	**50.2**	$	95.3	$	(45.1)
Adjusted EPS(2) (fully diluted)	**$**	**0.18**	$	0.35	$	(0.17)
Diluted weighted average number of shares outstanding (in millions)		**271.7**		271.7		

(1) Net of non-controlling interest.
(2) Earnings per share ("EPS").
(3) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.
(4) All adjustments are net of income taxes.

OPERATING RESULTS – FULL YEAR

($ in millions, except per share amounts)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015[1]	2017 Compared to 2016 $ Change	2017 Compared to 2016 % Change
Sales	**$ 23,806.2**	$ 24,618.8	$ 23,928.8	**$** (812.6)	(3.3)%
Gross profit	**5,707.2**	5,957.6	5,962.1	(250.4)	(4.2)%
EBITDA	**777.2**	(1,944.7)	1,224.9	2,721.9	140.0 %
Adjusted EBITDA	**796.9**	1,161.4	1,321.9	(364.5)	(31.4)%
Operating income (loss)	**333.0**	(2,418.5)	742.4	2,751.5	113.8 %
Finance costs, net	**118.0**	137.4	155.1	(19.4)	(14.1)%
Income tax expense (recovery)	**42.5**	(441.3)	150.4	483.8	109.6 %
Non-controlling interest	**14.0**	16.4	17.9	(2.4)	(14.6)%
Net earnings (loss)[2]	**158.5**	(2,131.0)	419.0	2,289.5	107.4 %
Adjusted net earnings[2]	**191.3**	410.2	511.0	(218.9)	(53.4)%
Basic earnings per share					
Net earnings (loss)[2][3]	**$ 0.58**	$ (7.78)	$ 1.51	**$** 8.36	
Adjusted net earnings [2]	**$ 0.70**	$ 1.50	$ 1.84	**$** (0.80)	
Basic weighted average number of shares outstanding (in millions)	**271.9**	273.9	277.0		
Diluted earnings per share					
Net earnings (loss)[2][3]	**$ 0.58**	$ (7.78)	$ 1.51	**$** 8.36	
Adjusted net earnings[2]	**$ 0.70**	$ 1.50	$ 1.84	**$** (0.80)	
Diluted weighted average number of shares outstanding (in millions)	**272.0**	274.0	277.2		
Dividend per share	**0.41**	0.40	0.36		

(% of sales)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015
Gross profit	**24.0%**	24.2%	24.9%
EBITDA	**3.3%**	(7.9)%	5.1%
Adjusted EBITDA	**3.3%**	4.7%	5.5%
Operating income (loss)	**1.4%**	(9.8)%	3.1%
Net earnings (loss)[2]	**0.7%**	(8.7)%	1.8%
Adjusted net earnings[2]	**0.8%**	1.7%	2.1%

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of earnings (loss).
(2) Net of non-controlling interest.
(3) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

Sales

All sales are generated by the Food retailing segment.

The decrease in sales for the 52 weeks ended May 6, 2017 was primarily the result of:

- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million in sales;
- Retail food price deflation;
- Negative impact of merchandising and promotional strategies in Western Canada; and
- Price sensitivity by consumers and their continued shift to improved value.

During the 52 weeks ended May 6, 2017, same-store sales decreased 2.1 percent and excluding the impact of fuel sales decreased 2.2 percent from the same period last year. Excluding fuel and the retail West business unit, same-store sales decreased 1.2 percent.

Gross Profit

The decrease in gross profit during the 52 weeks ended May 6, 2017 continued to be the result of the factors impacting sales, as well as significant investments made in pricing, particularly in the West business unit.

EBITDA

EBITDA increased in the 52 weeks ended May 6, 2017, largely due to impairments recorded for goodwill and long-lived assets in the prior year.

Adjusted EBITDA decreased in the 52 weeks ended May 6, 2017, mainly as a result of the previously mentioned factors affecting sales, as well as increases in selling and administrative expenses, including increased labour costs and promotional spending. Selling and administrative expenses as a percentage of sales has increased due to the impact of lower sales.

($ in millions)		**52 Weeks Ended May 6, 2017**		53 Weeks Ended May 7, 2016		$ Change
EBITDA	**$**	**777.2**	$	(1,944.7)	$	2,721.9
Adjustments:						
Costs related to Project Sunrise		**15.8**		-		
Distribution centre restructuring		**9.6**		7.9		
(Gain) loss on disposal of manufacturing facilities		**(7.5)**		71.8		
Historical organizational realignment costs		**3.4**		13.2		
Network rationalization reversals		**(1.6)**		(13.9)		
Impairments of goodwill and long-lived assets		**-**		3,027.1		
		19.7		3,106.1		(3,086.4)
Adjusted EBITDA	**$**	**796.9**	$	1,161.4	$	(364.5)

Operating Income

For the 52 weeks ended May 6, 2017, operating income increased primarily as a result of the impairments of goodwill and long-lived assets recorded in the prior year. This was slightly offset by an increase in selling and administrative expenses in the current year and an additional week of operations in fiscal 2016.

Finance Costs

During fiscal 2017, net finance costs decreased primarily due to debt repayments in fiscal 2017. Interest coverage increased to 3.2 times from (21.2) times in the prior year as a result of increased operating income. Excluding the impairments of goodwill and long-lived assets, interest coverage for fiscal 2016 would have been 5.3 times.

Income Taxes

The effective income tax rate for the 52 weeks ended May 6, 2017 increased to 19.8 percent compared to 17.3 percent in the 53 weeks ended May 7, 2016. Excluding the impact of the fiscal 2016 impairments, the effective income tax rate, would have been 27.0 percent in the same period last year. The change is attributed to capital gain transactions, the sale and lease back of retail properties to Crombie REIT on a tax deferred basis as well as changes in legislation related to eligible capital expenditures in the current year.

Net Earnings

For the 52 weeks ended May 6, 2017, net earnings, net of non-controlling interest, were primarily impacted by the reasons noted in the EBITDA section.

($ in millions, except per share amounts)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	$ Change
Net earnings (loss) [1]	**$ 158.5**	$ (2,131.0)	$ 2,289.5
EPS[2] (fully diluted)	**$ 0.58**	$ (7.78)	$ 8.36
Adjustments[3]:			
Intangible amortization associated with the Canada Safeway acquisition	**18.8**	19.1	
Costs related to Project Sunrise	**11.3**	-	
Distribution centre restructuring	**6.9**	5.8	
(Gain) loss on disposal of manufacturing facilities	**(5.5)**	57.4	
Historical organizational realignment costs	**2.5**	9.6	
Network rationalization reversals	**(1.2)**	(10.1)	
Impairments of goodwill and long-lived assets	**-**	2,459.4	
	32.8	2,541.2	(2,508.4)
Adjusted net earnings[1]	**$ 191.3**	$ 410.2	$ (218.9)
Adjusted EPS (fully diluted)	**$ 0.70**	$ 1.50	$ (0.80)
Diluted weighted average number of shares outstanding (in millions)	**272.0**	274.0	

(1) Net of non-controlling interest.

(2) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

(3) All adjustments are net of income taxes.

FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

The following is a review of Empire's Food retailing segment's financial performance for the 52 weeks ended May 6, 2017 compared to the 53 weeks ended May 7, 2016 and 52 weeks ended May 2, 2015.

The following financial information is Sobeys' contribution to Empire as the amounts are net of consolidation adjustments, which include a purchase price allocation from the privatization of Sobeys.

($ in millions)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	52 Weeks Ended May 2, 2015	2017 Compared to 2016 $ Change	% Change
Sales	**$ 23,806.2**	$ 24,618.8	$ 23,928.8	$ (812.6)	(3.3)%
Gross profit	**5,707.2**	5,957.6	5,962.5	(250.4)	(4.2)%
EBITDA	**703.2**	(2,036.0)	1,121.9	2,739.2	134.5%
Adjusted EBITDA	**722.9**	1,070.1	1,218.9	(347.2)	(32.4)%
Operating income (loss)	**259.3**	(2,509.2)	639.9	2,768.5	110.3%
Net earnings (loss)(1)	**112.7**	(2,193.3)	343.5	2,306.0	105.1%
Adjusted net earnings(1)	**145.5**	347.9	435.5	(202.4)	(58.2)%

(1) Net of non-controlling interest.

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

($ in millions)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016(1)	52 Weeks Ended May 2, 2015(1)
Sales (decline) growth	**(3.3)%**	2.9%	14.2%
Same store sales (decline) growth	**(2.1)%**	(0.2)%	1.4%
Return on equity(2)	**4.9%**	(55.4)%	7.1%
Funded debt to total capital(2)	**39.5%**	46.0%	31.5%
Funded debt to adjusted EBITDA(2)	**2.4x**	2.1x	1.9x
Property, equipment, and investment property purchases(3)	**$470.8**	$616.2	$497.2

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows and the consolidated balance sheets.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

Excluding the impact of goodwill and long-lived asset impairments in fiscal 2016, return on equity would have been 5.4 percent.

Sales

The decrease in sales for the 52 weeks ended May 6, 2017 was primarily the result of:

- The additional week of operations in fiscal 2016 which accounted for approximately $461.2 million in sales;
- Retail food price deflation;
- Negative impact of merchandising and promotional strategies in Western Canada; and
- Price sensitivity by consumers and their continued shift to improved value.

During the 52 weeks ended May 6, 2017, same-store sales decreased 2.1 percent and excluding the impact of fuel sales decreased 2.2 percent from the same period last year. Excluding fuel and the retail West business unit, same-store sales decreased 1.2 percent.

Gross Profit

The decrease in gross profit during the 52 weeks ended May 6, 2017 continued to be the result of the factors impacting sales, as well as significant investments made in pricing, particularly in the West business unit.

EBITDA

EBITDA increased in the 52 weeks ended May 6, 2017, largely due to impairments recorded for goodwill and long-lived assets in the prior year.

Adjusted EBITDA decreased in the 52 weeks ended May 6, 2017, mainly as a result of the previously mentioned factors affecting sales, as well as increases in selling and administrative expenses, including increased labour costs and promotional spending. Selling and administrative expenses as a percentage of sales has increased due to the impact of lower sales.

($ in millions)		**52 Weeks Ended May 6, 2017**		53 Weeks Ended May 7, 2016		$ Change
EBITDA	**$**	**703.2**	$	(2,036.0)	$	2,739.2
Adjustments:						
Costs related to Project Sunrise		**15.8**		-		
Distribution centre restructuring		**9.6**		7.9		
(Gain) loss on disposal of manufacturing facilities		**(7.5)**		71.8		
Historical organizational realignment costs		**3.4**		13.2		
Network rationalization reversals		**(1.6)**		(13.9)		
Impairments of goodwill and long-lived assets		**-**		3,027.1		
		19.7		3,106.1		(3,086.4)
Adjusted EBITDA	**$**	**722.9**	$	1,070.1	$	(347.2)

Operating Income

For the 52 weeks ended May 6, 2017, operating income increased primarily as a result of the impairments of goodwill and long-lived assets recorded in the prior year. This was slightly offset by an increase in selling and administrative expenses in the current year and an additional week of operations in fiscal 2016.

Net Earnings

For the 52 weeks ended May 6, 2017, net earnings, net of non-controlling interest, were primarily impacted by the reasons noted in the EBITDA section.

($ in millions, except per share amounts, net of tax)		**52 Weeks Ended May 6, 2017**		53 Weeks Ended May 7, 2016		$ Change
Net earnings (loss)(1)	**$**	**112.7**	$	(2,193.3)	$	2,306.0
Adjustments(2):						
Intangible amortization associated with the Canada Safeway acquisition		**18.8**		19.1		
Costs related to Project Sunrise		**11.3**		-		
Distribution centre restructuring		**6.9**		5.8		
(Gain) loss on disposal of manufacturing facilities		**(5.5)**		57.4		
Historical organizational realignment costs		**2.5**		9.6		
Network rationalization reversals		**(1.2)**		(10.1)		
Impairments of goodwill and long-lived assets		**-**		2,459.4		
		32.8		2,541.2		(2,508.4)
Adjusted net earnings(1)	**$**	**145.5**	$	347.9	$	(202.4)

(1) Net of non-controlling interest.
(2) All adjustments are net of income taxes.

Investments and Other Operations

($ in millions)		52 Weeks Ended May 6, 2017		53 Weeks Ended May 7, 2016		$ Change
Operating income (loss)						
Crombie REIT(1)	**$**	**41.5**	$	38.9	$	2.6
Real estate partnerships(2)		**35.1**		46.7		(11.6)
Other operations, net of corporate expenses		**(2.9)**		5.1		(8.0)
	$	**73.7**	$	90.7	$	(17.0)

(1) 41.5 percent equity accounted interest in Crombie REIT (May 7, 2016 – 41.5 percent interest).
(2) Interests in Genstar.

Operating Income

For the 52 weeks ended May 6, 2017, the decrease in operating income from Investments and other operations is attributed to:

- A decrease in operating income from Genstar primarily due to the sale of two real estate partnerships by Genstar Development Partnership II in the third quarter of fiscal 2016; and

- A decrease in operating income from other operations compared to the prior year due to property sales by Crombie REIT in fiscal 2016 that resulted in the realization of previously deferred gains.

Investment Portfolio

At May 6, 2017, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	May 6, 2017						May 7, 2016					
($ in millions)		**Fair Value**		**Carrying Value**		**Unrealized Gain**		Fair Value		Carrying Value		Unrealized Gain
Investment in associates												
Crombie REIT(1)	**$**	**883.6**	**$**	**459.1**	**$**	**424.5**	$	786.0	$	366.8	$	419.2
Canadian real estate partnerships(2)		**143.0**		**143.0**		**-**		148.5		148.5		-
U.S. real estate partnerships(2)		**36.8**		**36.8**		**-**		50.2		50.2		-
Investment in joint ventures												
Canadian Digital Cinema Partnership(2)		**9.5**		**9.5**		**-**		9.4		9.4		-
	$	**1,072.9**	**$**	**648.4**	**$**	**424.5**	$	994.1	$	574.9	$	419.2

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of May 5, 2017.
(2) Assumes fair value equals carrying value.

QUARTERLY RESULTS OF OPERATIONS

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

	Fiscal 2017				Fiscal 2016			
($ in millions, except per share amounts)	**Q4 (13 Weeks) May 6, 2017**	Q3 (13 Weeks) Feb. 4, 2017	Q2 (13 Weeks) Nov. 5, 2016	Q1 (13 Weeks) Aug. 6, 2016	Q4 (14 Weeks) May 7, 2016	Q3 (13 Weeks) Jan. 30, 2016	Q2 (13 Weeks) Oct. 31, 2015	Q1 (13 Weeks) Aug. 1, 2015
Sales	**$ 5,798.9**	$ 5,889.8	$ 5,930.9	$ 6,186.6	$ 6,283.2	$ 6,027.2	$ 6,059.2	$ 6,249.2
EBITDA(1)	**171.7**	179.4	187.8	238.3	(1,047.2)	(1,467.9)	256.3	314.1
Operating income (loss)	**61.4**	68.6	76.4	126.6	(1,160.2)	(1,589.8)	136.0	195.5
Net earnings (loss)(2)	**$ 29.5**	$ 30.5	$ 33.1	$ 65.4	$ (942.6)	$ (1,365.7)	$ 68.5	$ 108.8
Per share information, basic								
Net earnings (loss)(2)(3)	**$ 0.11**	$ 0.11	$ 0.12	$ 0.24	$ (3.47)	$ (5.03)	$ 0.25	$ 0.39
Basic weighted average number of shares outstanding (in millions)	**271.7**	271.1	271.6	271.7	271.7	271.7	275.2	277.0
Per share information, diluted								
Net earnings (loss)(2)(3)	**$ 0.11**	$ 0.11	$ 0.12	$ 0.24	$ (3.47)	$ (5.03)	$ 0.25	$ 0.39
Diluted weighted average number of shares outstanding (in millions)	**271.7**	271.7	272.2	271.7	271.7	271.8	275.5	277.5

(1) EBITDA is reconciled to net earnings (loss) for the current and comparable period in the "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Net of non-controlling interest.
(3) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

When reviewing financial results for comparable periods:

- The results of the first and second quarter for fiscal 2017 compared to the same period in fiscal 2016 were lower due to a number of factors including challenges faced in the West business unit and downward sales trends in most of the store network driven by price sensitivity and customers' continued shift to improved value.

- The results of the third quarter of fiscal 2017 reflect decreased sales, but an increase in operating income and net earnings, net of non-controlling interest, compared to the same quarter in fiscal 2016. This is due to goodwill and long-lived asset impairments recorded in the third quarter of fiscal 2016, of $1,592.6 million and $137.7 million, respectively, as discussed in the "Overview of the Business" section of this MD&A.

- The results of the fourth quarter of fiscal 2017 reflect decreased sales, but an increase in operating income and net earnings, net of non-controlling interest, compared to the same quarter in fiscal 2016. The decrease in sales in the fourth quarter primarily relates to the additional week of operations in fiscal 2016. The increase in operating income and net earnings, net of non controlling interest, was the result of the impairment charges the Company recorded in the fourth quarter in fiscal 2016, totaling $10.9 million for long-lived assets and $1,285.9 million for goodwill, as previously discussed.

Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. The Company experiences some seasonality, as evidenced in the results presented above, in particular during the summer months and over the holidays. The sales, EBITDA, operating income (loss) and net earnings (loss), net of non-controlling interest, have been influenced by impairments recorded, one-time adjustments, other investing activities, the competitive environment, cost management initiatives, food price and general industry trends.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights the major cash flow components for the Company for the relevant periods.

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016[1]	$ Change	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	$ Change
Cash flows from operating activities	**225.8**	242.4	(16.6)	**708.5**	896.8	(188.3)
Cash flows used in investing activities	**(73.3)**	(174.4)	101.1	**(35.7)**	(622.6)	586.9
Cash flows used in financing activities	**(148.5)**	(97.3)	(51.2)	**(730.2)**	(305.4)	(424.8)
Increase (decrease) in cash and cash equivalents	**$ 4.0**	$ (29.3)	$ 33.3	**$ (57.4)**	$ (31.2)	$ (26.2)

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows.

Operating Activities

The decrease in cash flows from operating activities for the 13 and 52 weeks ended May 6, 2017 was primarily the result of an increase in net earnings, offset by fluctuations in non-cash working capital.

Free Cash Flow

Management uses free cash flow[1] as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities.

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016[2]	$ Change	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016	$ Change
Cash flows from operating activities	**$ 225.8**	$ 242.4	$ (16.6)	**$ 708.5**	$ 896.8	$ (188.3)
Add: proceeds on disposal of property, equipment, and investment property	**36.8**	11.6	25.2	**425.7**	142.5	283.2
Less: property, equipment, and investment property purchases	**(91.8)**	(173.9)	82.1	**(460.7)**	(616.5)	155.8
Free cash flow	**$ 170.8**	$ 80.1	$ 90.7	**$ 673.5**	$ 422.8	$ 250.7

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of cash flows.

Free cash flow for the 13 weeks ended May 6, 2017 increased from the same period last year primarily as a result of the following factors:

- Increased proceeds from real estate transactions; and
- Decreased purchases of property, equipment and investment property, due to planned reduction of capital expenditures.

The increase in free cash flow for the 52 weeks ended May 6, 2017 was mainly the result of the following factors:

- Increased proceeds on disposal of property, equipment and investment property primarily due to the aforementioned agreement entered into with Crombie REIT;
- Decreased purchases of property, equipment and investment property; partially offset by
- Decreased operating activities as previously discussed.

Investing Activities

The decrease in cash used in investing activities during the 13 weeks ended May 6, 2017 was primarily due to:

- Decreased purchases of property, equipment and investment property;
- Decreased loans and other receivables;
- Decreased business acquisitions; and
- Increased proceeds on disposal of property, equipment and investment property.

The decrease in cash used in investing activities during the 52 weeks ended May 6, 2017 was mainly due to a sale and leaseback agreement entered into with Crombie REIT as previously discussed. This transaction increased cash proceeds on disposal of property, equipment and tenant inducements from Crombie REIT.

The table below outlines the number of stores Sobeys invested in during the 13 and 52 weeks ended May 6, 2017 compared to the 14 and 53 weeks ended May 7, 2016.

# of stores	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016
Opened/relocated/acquired	**16**	20	**66**	102
Expanded	**-**	3	**8**	18
Rebannered/redeveloped	**7**	1	**25**	22
Closed – normal course of operations	**11**	15	**40**	37
Closed – network rationalization	**-**	1	**-**	3

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 6, 2017, by type:

Square feet (in thousands)	**13 Weeks Ended May 6, 2017**	52 Weeks Ended May 6, 2017
Opened	**262**	677
Relocated	**98**	248
Acquired	**-**	43
Expanded	**-**	22
Closed – normal course of operations	**(104)**	(468)
Net change	**256**	522

At May 6, 2017, Sobeys' square footage totaled 39.2 million, a 1.3 percent increase compared to 38.7 million square feet operated at May 7, 2016.

Financing Activities

The cash used in financing activities increased during the 13 weeks ended May 6, 2017 from the same period of fiscal 2016, primarily due to repayments, net of advances, on the Company's credit facilities.

The cash used in financing activities increased during the 52 weeks ended May 6, 2017, from the same period of fiscal 2016, due to repayments made, net of advances, on the Company's credit facilities and the repayment of $300.0 million on Sobeys' senior unsecured notes.

Employee Future Benefit Obligations

For the 52 weeks ended May 6, 2017, the Company contributed $9.9 million (2016 – $8.9 million) to its registered defined benefit pension plans. As a result of actuarial valuations completed in fiscal 2017, contributions in fiscal 2018 are expected to increase to $23.3 million.

Guarantees and Commitments

The following table presents the Company's commitments and other obligations that will come due over the next five fiscal years as at May 6, 2017.

($ in millions)	2018	2019	2020	2021	2022	Thereafter	Total
Commitments							
Long-term debt(1)	118.2	512.6	23.1	133.4	6.5	1,033.5	1,827.3
Finance lease liabilities(2)	15.8	7.3	6.2	4.1	2.6	16.0	52.0
Third-party operating leases, as lessee(3)	257.7	240.6	222.5	200.9	176.7	986.3	2,084.7
Related party operating leases, as lessee(3)	148.0	143.7	142.5	142.9	142.7	1,645.6	2,365.4
Contractual obligations	539.7	904.2	394.3	481.3	328.5	3,681.4	6,329.4
Operating leases, as lessor	(20.6)	(19.3)	(17.2)	(15.3)	(14.1)	(95.6)	(182.1)
Contractual obligations, net	$ 519.1	$ 884.9	$ 377.1	$ 466.0	$ 314.4	$ 3,585.8	$ 6,147.3

(1) Principal debt repayments.
(2) Present value of minimum lease payments (future minimum lease payments less interest).
(3) Net of sub-lease income.

For further information on guarantees and commitments, please see Note 15 and Note 24 of the audited consolidated financial statements for the 52 weeks ended May 6, 2017.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		**May 6, 2017**		May 7, 2016[(1)(2)]		May 2, 2015[(1)(2)]
Shareholders' equity, net of non-controlling interest	**$**	**3,644.2**	$	3,623.9	$	5,986.7
Book value per common share[(3)]	**$**	**13.41**	$	13.34	$	21.61
Long-term debt, including current portion	**$**	**1,870.8**	$	2,367.4	$	2,284.1
Funded debt to total capital[(3)]		**33.9%**		39.5%		27.6%
Net funded debt to net total capital[(3)]		**31.3%**		36.7%		24.9%
Funded debt to adjusted EBITDA[(3)]		**2.3x**		2.0x		1.7x
Adjusted EBITDA to interest expense[(3)]		**7.7x**		10.2x		9.6x
Current assets to current liabilities		**0.9x**		1.0x		0.9x
Total assets	**$**	**8,695.5**	$	9,138.5	$	11,497.2
Total non-current financial liabilities	**$**	**2,502.1**	$	2,735.9	$	2,942.0

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated balance sheets.
(2) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of this MD&A for further detail.
(3) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

The funded debt to adjusted EBITDA ratio increased to 2.3 times compared to 2.0 times at May 7, 2016. The decrease in the adjusted EBITDA to interest expense coverage ratio (7.7 times versus 10.2 times at May 7, 2016) was the result of a lower trailing 12-month adjusted EBITDA ($796.9 million versus $1,161.4 million at May 7, 2016) and a lower trailing 12-month interest expense ($103.1 million versus $114.0 million at May 7, 2016).

The Company's ratio of current assets to current liabilities decreased to 0.9 times from 1.0 times at May 7, 2016.

During the 13 weeks ended May 6, 2017, Dominion Bond Rating Service ("DBRS") downgraded Sobeys' credit rating from BBB (low) with a negative trend to BB (high) with a negative trend, while Standard and Poor's ("S&P") remained unchanged at BB+ with a stable outlook. Management does not believe these credit rating changes will materially impact the ability to finance the normal operations of the Company.

The Company believes that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring various sources of funds are diversified by term to maturity and source of credit. Subsequent to year end, Sobeys entered into a new, senior, unsecured non-revolving credit facility for $500.0 million that is intended to be used to repay long-term debt due in calendar 2018.

The Company has provided covenants to its lenders in support of various financing facilities. The Company was in compliance with all covenants for the 13 and 52 weeks ended May 6, 2017.

For additional information on Empire's long-term debt, see Note 15 of the Company's audited annual consolidated financial statements for the 52 weeks ended May 6, 2017.

Shareholders' Equity

The Company's share capital was comprised of the following on May 6, 2017:

		Number of Shares	
Authorized		**May 6, 2017**	May 7, 2016
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**	768,105,849
Class B common shares, without par value, voting		**122,400,000**	122,400,000

Issued and outstanding ($ in millions)	**Number of Shares**	**May 6, 2017**	May 7, 2016
Non-Voting Class A	**173,537,901**	**$ 2,037.8**	$ 2,037.8
Class B common	**98,138,079**	**7.3**	7.3
Shares held in trust	**(555,409)**	**(10.7)**	-
Total		**$ 2,034.4**	$ 2,045.1

The increase in shareholders' equity, net of non-controlling interest, of $20.3 million in fiscal 2017 primarily reflects the increase in retained earnings. Book value per common share was $13.41 at May 6, 2017 compared to $13.34 at May 7, 2016.

The Company's share capital on May 6, 2017 compared to the same period in the last fiscal year is shown in the table below.

(Number of Shares)	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016
Non-Voting Class A shares		
Issued and outstanding, beginning of year	**173,537,901**	178,862,211
Issued during year	**-**	41,442
Repurchase of capital stock	**-**	(5,365,752)
Issued and outstanding, end of year	**173,537,901**	173,537,901
Shares held in trust, beginning of year	**-**	-
Purchased for future settlement of equity settled plans	**(555,409)**	-
Shares held in trust, end of year	**(555,409)**	-
Issued and outstanding, net of shares held in trust, end of year	**172,982,492**	173,537,901
Class B common shares		
Issued and outstanding, beginning of year	**98,138,079**	98,138,079
Issued during year	-	-
Total Issued and outstanding, end of year	**98,138,079**	98,138,079

The outstanding options at May 6, 2017 were granted at prices between $15.60 and $30.87 and expire between May 2018 and June 2024 with a weighted average remaining contractual life of 5.59 years. Stock option transactions during fiscal 2017 and 2016 were as follows:

	2017		2016	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**3,655,322**	**$ 25.94**	3,364,995	$ 24.86
Granted	**1,642,700**	**20.40**	753,845	30.13
Exercised	**-**	**-**	(135,712)	20.09
Forfeited	**(348,159)**	**23.51**	(327,806)	26.90
Balance, end of year	**4,949,863**	**$ 24.27**	3,655,322	$ 25.94
Stock options exercisable, end of year	**3,334,369**		2,206,342	

The 4,949,863 stock options outstanding as at the fiscal year ended May 6, 2017 (May 7, 2016 – 3,655,322) represents 1.8 percent (May 7, 2016 – 1.3 percent) of the outstanding Non-Voting Class A and Class B common shares.

During fiscal 2017, the Company paid common dividends of $111.3 million (2016 – $109.4 million) to its equity holders. This represents a payment of $0.41 per share (2016 – $0.40 per share) for common share holders.

During the second quarter of fiscal 2017, the Company established a trust fund to facilitate the purchase of Non-Voting Class A shares for the future settlement of vested units under the Company's equity settled stock-based compensation plans. Contributions to the trust fund and the Non-Voting Class A shares purchased are held by CST Trust Company as trustee. The trust fund is an SE and as such the accounts of the trust fund are included in the consolidated financial statements of the Company. During fiscal 2017, the trust fund purchased 555,409 Non-Voting Class A shares for $10.7 million. These Non-Voting Class A shares have been recorded as a reduction to both capital stock and the weighted average number of common shares outstanding.

As at June 26, 2017 the Company had Non-Voting Class A and Class B common shares outstanding of 173,537,901 and 98,138,079, respectively, as well as 4,923,911 options to acquire in aggregate 4,923,911 Non-Voting Class A shares.

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 this MD&A.

Normal Course Issuer Bid ("NCIB")

The Board of Directors and senior management of Empire are of the opinion that from time to time the purchase of Non-Voting Class A shares at the prevailing market prices is a worthwhile use of funds and in the best interests of Empire and its shareholders.

Accordingly, 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 million of which $64.8 million 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. Purchases were to commence on March 17, 2016, and terminate on March 16, 2017. Empire did not repurchase any Non-Voting Class A shares since the date of notice.

ACCOUNTING STANDARDS AND POLICIES

The audited consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 7, 2016 with the exception of the following:

Changes to Accounting Policies Adopted During Fiscal 2017

(i) *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 became effective during the first quarter of fiscal 2017 and had no material impact on the Company's consolidated financial statements.

(ii) *Income Taxes*

In November 2016, the IFRS Interpretations Committee ("IFRIC") issued its agenda decision addressing the expected manner of recovery of an intangible asset with an indefinite useful life for the purposes of measuring deferred tax in accordance with IAS 12, "Income Taxes". IFRIC noted that an intangible asset with an indefinite useful life does not mean infinite life, nor does it mean the expected manner of recovery of the carrying amount would result solely through sale. Therefore, in applying IAS 12, an entity must determine its expected manner of recovery of the carrying value of the intangible asset with an indefinite life and should reflect the tax consequences that follow from that expected manner of recovery. Previously, Empire measured deferred taxes on temporary differences arising from indefinite life intangible assets using capital gains rates on the basis that the assets will be recovered through its disposition. As a result of the IFRIC agenda decision, the Company has changed its accounting policy to measure deferred taxes at the income tax rate applicable to ordinary taxable income expected to apply in the years in which the temporary differences are expected to be recovered or settled. The Company adopted this change on a retrospective basis as an accounting policy change in accordance with IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" and the impact on the consolidated financial statements for the 52 weeks ended May 6, 2017 was an increase to deferred tax liabilities of $33.6 million (2016 – $33.6 million), an increase to retained earnings of $2.9 million (2016 – $2.9 million), with a corresponding adjustment to goodwill of $36.5 million (2016 – $36.5 million).

Future Standards

(i) *Statement of Cash Flows*

In January 2016, the IASB issued Disclosure Initiative Amendments to IAS 7 "Statement of Cash Flows". These amendments require entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash and non-cash-flow changes. These amendments are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments will occur in fiscal 2018 and is not expected to have a significant impact on current disclosures of the Company.

(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, IFRS 9 further establishes an expected credit loss impairment model where it is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also introduces a new hedge accounting model that aligns with corresponding risk management activities. 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. The standard allows for early adoption, but the Company does not intend to do so at this time.

In April 2016, the IASB published clarifications to IFRS 15 which addresses three topics (identifying performance obligations, principle versus agent considerations and licensing) as well as providing some transition relief for modified and completed contracts. The implementation timelines for these clarifications are consistent with IFRS 15.

(iv) *Leases*

In January 2016, the IASB issued IFRS 16, “Leases”, which replaces IAS 17, “Leases” and related interpretations. 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 early adopt IFRS 16. For leases where the Company is the lessee it has the option of adopting a full retrospective approach or a modified retrospective approach with various optional practical expedients available.

The Company expects the adoption of IFRS 16 will have a significant impact on its consolidated financial statements. New assets and liabilities will be recognized for the Company’s operating property and equipment leases. Additional changes due to the nature and timing of expenses related to the operating leases will be incurred as the Company will recognize depreciation for right-of-use assets and finance expense on lease liabilities replacing straight-line lease expense. No significant impacts are expected where the Company is a lessor or sublessor.

The Company is currently evaluating the impact of these standards on its consolidated financial statements. The Company will disclose additional information including transition methods and estimated qualitative financial impacts during fiscal 2018.

Critical Accounting Estimates

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

Impairments of Goodwill and Long-Lived Assets

Management assesses impairment of non-financial assets such as investments in associates and joint ventures, 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.

Goodwill is subject to impairment testing on an annual basis. The Company performed its annual assessment of goodwill impairment during its third quarter. 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.

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.

Pension Benefit Plans and Other Benefit Plans

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

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

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

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income. The key assumptions are disclosed in Note 17 of the Company's financial statements.

Income Taxes

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

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

Valuation of Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) 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. Changes or differences in any of these estimates may result in changes to inventories on the consolidated balance sheets and a charge or credit to operating income in the consolidated statements of earnings.

Provisions

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

Business Acquisitions

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

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 purchase volumes. 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.

Disclosure Controls and Procedures

Management of the Company, which includes the President & Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have evaluated the effectiveness of the Company's DC&P and based on that evaluation, the CEO and CFO have concluded that the Company's DC&P was effective as at May 6, 2017 and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control over Financial Reporting

Management of the Company, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is *"Internal Control Integrated Framework (2013)"* published by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO have evaluated the effectiveness of the Company's ICFR and based on that evaluation, the CEO and CFO have concluded that the Company's ICFR was effective as at May 6, 2017 and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in the Company's ICFR during the period beginning February 5, 2017 and ended May 6, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Related Party Transactions

The Company has related party transactions with Crombie REIT 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.

The Company leased certain real property from Crombie REIT during the year at amounts which in management's opinion approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value based on 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 $195.8 million (2016 – $164.9 million).

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 6, 2017, investments included $25.1 million (2016 – $24.7 million) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of $1.2 million for the year ended May 6, 2017 (2016 – $1.2 million).

On June 29, 2016, Sobeys and its wholly-owned subsidiaries closed 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 which were previously owned by Empire. Crombie REIT also invested approximately $58.8 million in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. In addition to cash, Crombie REIT issued to a subsidiary of Sobeys $93.4 million in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. The subsidiary of Sobeys subsequently sold its Class B LP units to Empire on a tax deferred basis. Total net cash proceeds to the Company and its wholly-owned subsidiaries from these transactions with Crombie REIT were $323.8 million, resulting in a pre-tax loss of $0.8 million. Proceeds from the transactions were used to repay the senior unsecured notes.

On July 29, 2016, Sobeys, through a wholly-owned subsidiary, sold and leased back an additional property from Crombie REIT for cash consideration of $26.4 million. This resulted in a pre-tax gain of $2.1 million. Sobeys also purchased one property from Crombie REIT for $9.1 million.

During fiscal 2014, Sobeys entered into a loan agreement with Crombie REIT to partially finance Sobeys' acquisition of a property in British Columbia. The $11.9 million loan bore interest at a rate of 6.0 percent and had no principal repayments. On May 5, 2017, the Company sold the property to Crombie REIT for cash consideration of $31.1 million, resulting in a pre-tax gain of $1.0 million. Proceeds from the transaction were used to repay the loan.

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 million, resulting in a pre-tax gain of $6.5 million.

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:

($ in millions)	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016
Salaries, bonus and other short-term employment benefits	**$ 9.7**	$ 9.6
Post-employment benefits	**1.6**	1.9
Termination benefits	**8.7**	1.5
Share-based payments	**14.8**	6.1
	$ 34.8	$ 19.1

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.

CONTINGENCIES

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.

RISK MANAGEMENT

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

Project Sunrise

On May 4, 2017, the Company announced a major transformation initiative to streamline the organization and enhance the efficiency of its operations. Failure to execute change management during this transition could result in disruptions to the operations of the business or the ability of the Company to implement and achieve its long-term strategic objectives. The implementation of a major transformation initiative has the ability to create labor unrest, negative publicity and business disruption.

There is the risk that the Company will not realize the $500 million in annualized savings when the independent regions are collapsed, when collaborations with vendors are simplified and efficiency and productivity initiatives are complete by the end of fiscal 2020.

Competition

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

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 900 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. A failure to maintain geographic diversification to reduce the effects of localized competition could have an adverse impact on Sobeys' operating margins and results of operations. To successfully compete, Sobeys believes it must be customer and market-driven be focused on superior execution and have efficient, cost-effective operations. It also believes it must invest in its existing store network, as well as its merchandising, marketing and operational execution to evolve its strategic platform to better meet the needs of consumers looking for more affordable, better food options. The Company further believes it must invest in merchandising initiatives to better forecast and respond to changing consumer trends. Any failure to successfully execute in these areas could have a material adverse impact on Sobeys' financial results.

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

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

Product Safety and Security

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

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

Loyalty Program

The Company utilizes a third-party loyalty program to provide additional value to customers. The decisions made by the third-party can adversely affect the reputation and financial operations of the Company. Promotional and other activities related to possible changes in the loyalty programs must be effectively managed and coordinated to ensure a positive customer perception. Failure to effectively manage and communicate changes to the loyalty program may negatively impact the Company's reputation.

Human Resources

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

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

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

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

Recent announcements of minimum wage increases in several provinces will have an impact on labour costs and the labour force of the Company.

Operations

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

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

Technology

The Company operates extensive and complex information technology systems that are vital to the successful operation of its business and marketing strategies. Any interruption to these systems or the information collected by them would have a significant adverse impact on the Company, its operations and its financial results. The Company is committed to improving its operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk of realization of functionality.

Information Management

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

The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management.

Supply Chain

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

Product Costs

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

Economic Environment

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

Liquidity Risk

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

Interest Rate Fluctuation

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

Business Continuity

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

Insurance

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

Ethical Business Conduct

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

Environmental

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

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

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

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

Occupational Health and Safety

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

Real Estate

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

Legal, Taxation and Accounting

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

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

Utility and Fuel Prices

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

Credit Rating

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

Foreign Currency

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

Capital Allocation

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

Seasonality

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

Foreign Operations

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

Drug Regulation and Legislation

The Company currently operates 353 in-store pharmacies and 74 freestanding pharmacies that are subject to risks associated with changes to federal and provincial legislation governing the sale of prescription drugs. Legislated changes to generic prescription drug prices and dispensing fees, which vary province by province, continued to impact the Company in fiscal 2017. In addition to provincial plan changes, third-parties continue to advocate for changes to generic drug legislation in order to reduce drug plan costs. Changes to regulations and legislation affecting generic prescription drug prices, reimbursement rates for generic drugs, manufacturer allowance funding, customer inducements and dispensing fees are expected to continue the downward pressure on prescription drug sales. The Company has and will continue to identify opportunities to mitigate the negative impact these changes have on financial performance.

Pension Plans

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

The Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 17 percent of the employees of Sobeys and its franchisees and affiliates participate in these plans. The responsibility of Sobeys, its franchisees, and affiliates to make contributions to these plans is limited to the amounts established in the collective bargaining agreements; and other associated agreements, however poor performance of these plans could have a negative effect on the participating employees or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

Leverage Risk

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

SUBSEQUENT EVENTS

On May 11, 2017, the unitholders of Crombie REIT approved a tax reorganization that will eliminate wholly-owned corporate subsidiaries being subject to corporate income taxes. This tax reorganization is not expected to have a significant impact on the financial position of the Company.

On June 2, 2017, Crombie REIT announced that it had exercised its right to redeem its 5.00% Series D Convertible Unsecured Subordinated Debentures. The redemption will be effective on July 4, 2017. Upon redemption, Crombie REIT will pay to the holders of debentures the redemption price equal to the outstanding principal amount and all accrued and unpaid interest. Empire currently holds a $25.1 million investment in the Series D convertible debentures.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

NON-GAAP FINANCIAL MEASURES & FINANCIAL METRICS

There are measures and metrics included in this MD&A that do not have a standardized meaning under generally accepted accounting principles ("GAAP") and therefore may not be comparable to similarly titled measures and metrics presented by other publicly traded companies. Management believes that certain of these measures and metrics, including gross profit and EBITDA, are important indicators of Empire's ability to generate liquidity through operating cash flow to fund future working capital requirements, service outstanding debt and fund future capital expenditures and uses these metrics for these purposes.

In addition, management adjusts measures and metrics, including EBITDA and net earnings (loss) in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure, by excluding certain items. These items may impact the analysis of trends in performance and affect the comparability of the Company's core financial results. By excluding these items, management is not implying they are non-recurring.

Financial Measures

The intent of Non-GAAP Financial Measures used by the Company is to provide additional useful information to investors and analysts. Non-GAAP Financial Measures should not be considered in isolation or used as a substitute for measures of liquidity and performance prepared in accordance with GAAP. The Company's definitions of the non-GAAP terms included in this MD&A are as follows:

- Gross profit is calculated as sales less cost of sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA"), is calculated as net earnings (loss), before finance costs (net of finance income), income tax expense (recovery), depreciation, and amortization of intangibles. The exclusion of depreciation and amortization of intangibles partially eliminates the non-cash impact from operating income (loss).

The following table reconciles net earnings (loss) to EBITDA:

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016
Net earnings (loss)	**$ 32.3**	$ (939.8)	**$ 172.5**	$ (2,114.6)
Income tax expense (recovery)	**1.4**	(256.7)	**42.5**	(441.3)
Finance costs, net	**27.7**	36.3	**118.0**	137.4
Operating income (loss)	**61.4**	(1,160.2)	**333.0**	(2,418.5)
Depreciation	**88.6**	90.9	**355.5**	384.8
Amortization of intangibles	**21.7**	22.1	**88.7**	89.0
EBITDA	**$ 171.7**	$ (1,047.2)	**$ 777.2**	$ (1,944.7)

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance. These adjustments result in a truer economic representation on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the "Management's Explanation of Consolidated Operating Results", and "Food Retailing" sections of this MD&A.

- Management calculates interest expense as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income. Management believes that this alternative measure of interest expense represents a better measure of the Company's debt service expense, without the offsetting total finance income, or amounts relating to pension costs and accretion on provisions, as presented in Note 21 to the audited consolidated financial statements.

The following table reconciles finance costs, net to interest expense:

($ in millions)	**13 Weeks Ended May 6, 2017**	14 Weeks Ended May 7, 2016	**52 Weeks Ended May 6, 2017**	53 Weeks Ended May 7, 2016
Finance costs, net	**$ 27.7**	$ 36.3	**$ 118.0**	$ 137.4
Plus: finance income	**1.0**	1.0	**6.1**	3.1
Less: net pension finance costs	**(2.9)**	(3.0)	**(11.5)**	(12.4)
Less: accretion expense on provisions	**(0.3)**	(4.7)	**(9.5)**	(14.1)
Interest expense	**$ 25.5**	$ 29.6	**$ 103.1**	$ 114.0
Interest expense on financial liabilities measured at amortized cost	**$ 25.5**	$ 29.6	**$ 103.1**	$ 113.8
Losses on cash flow hedges reclassified from other comprehensive (loss) income	**-**	-	**-**	0.2
Interest expense	**$ 25.5**	$ 29.6	**$ 103.1**	$ 114.0

- Adjusted net earnings are net earnings (loss), net of non-controlling interest, excluding certain items to better analyze trends in performance and financial results. These adjustments result in a truer economic representation of the underlying business on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted net earnings is reconciled in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" sections of this MD&A.

- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases. Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. Free cash flow is reconciled to cash flows from operating activities as reported on the consolidated statements of cash flows, and is presented in the "Free Cash Flow" section of this MD&A.

- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt. Management believes that funded debt represents a better measure of the Company's total financial obligations on which interest payments are made.

- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company's financial obligations after 100 percent of cash and cash equivalents are applied against the total obligation.

- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.

- Net total capital is total capital less cash and cash equivalents.

The following tables reconcile the Company's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at May 6, 2017, May 7, 2016 and May 2, 2015, respectively:

($ in millions)		**May 6, 2017**		May 7, 2016(1)(2)		May 2, 2015(1)(2)
Long-term debt due within one year	**$**	**134.0**	$	350.4	$	53.9
Long-term debt		**1,736.8**		2,017.0		2,230.2
Funded debt		**1,870.8**		2,367.4		2,284.1
Less: cash and cash equivalents		**(207.3)**		(264.7)		(295.9)
Net funded debt		**1,663.5**		2,102.7		1,988.2
Total shareholders' equity, net of non-controlling interest		**3,644.2**		3,623.9		5,986.7
Net total capital	**$**	**5,307.7**	$	5,726.6	$	7,974.9

($ in millions)		**May 6, 2017**		May 7, 2016		May 2, 2015
Funded debt	**$**	**1,870.8**	$	2,367.4	$	2,284.1
Total shareholders' equity, net of non-controlling interest		**3,644.2**		3,623.9		5,986.7
Total capital	**$**	**5,515.0**	$	5,991.3	$	8,270.8

(1) Amounts have been reclassified to correspond to the current period presentation on the consolidated balance sheets.
(2) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of this MD&A for further detail.

Financial Metrics

The intent of the following Non-GAAP Financial Metrics is to provide additional useful information to investors and analysts. Management uses financial metrics for decision making, internal reporting, budgeting and forecasting. The Company's definitions of the metrics included in this MD&A are as follows:

- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of cost control and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.
- Interest coverage is calculated as operating income divided by interest expense.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholder's equity.
- Funded debt to total capital ratio is funded debt divided by total capital.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that funded debt to total capital and net funded debt to net total capital ratios represent measures upon which the Company's changing capital structure can be analyzed over time. Increasing ratios would indicate that the Company is using an increasing amount of debt in its capital structure to fund its operations.
- Funded debt to adjusted EBITDA ratio is funded debt divided by trailing four-quarter adjusted EBITDA. Management uses this ratio to partially assess the financial condition of the Company. An increasing ratio would indicate that the Company is utilizing more debt per dollar of adjusted EBITDA generated.
- Adjusted EBITDA to interest expense ratio is trailing four-quarter adjusted EBITDA divided by trailing four-quarter interest expense. Management uses this ratio to partially assess the coverage of its interest expense on financial obligations. An increasing ratio would indicate that the Company is generating more adjusted EBITDA per dollar of interest expense, resulting in greater interest coverage.

- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.

The following table shows the calculation of Empire's book value per common share as at May 6, 2017, May 7, 2016 and May 2, 2015.

($ in millions, except per share information)		**May 6, 2017**		May 7, 2016[1]		May 2, 2015[1]
Shareholders' equity, net of minority interest	**$**	**3,644.2**	$	3,623.9	$	5,986.7
Shares outstanding (basic)		**271.7**		271.7		277.0
Book value per common share	**$**	**13.41**	$	13.34	$	21.61

(1) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of this MD&A for further detail.

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

Approved by Board of Directors: June 28, 2017
Stellarton, Nova Scotia, Canada