EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 13 WEEKS ENDED AUGUST 5, 2017

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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") (TSX: EMP.A) and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 13 weeks ended August 5, 2017 compared to the 13 weeks ended August 6, 2016. The MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the 13 weeks ended August 5, 2017 compared to the 13 weeks ended August 6, 2016 and the audited annual consolidated financial statements for the 52 weeks ended May 6, 2017 and the related MD&A. Additional information about the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD"). The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended May 6, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The unaudited interim condensed 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 September 14, 2017 unless otherwise noted. There have been no material changes to disclosures as contained in the "Critical Accounting Estimates", "Contingencies" or "Risk Management" sections of the Company's MD&A for the 52 weeks ended May 6, 2017 other than as noted in this MD&A.

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 cost savings and 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 project as well as the factors identified under the heading "Risk Management" in the fiscal 2017 annual MD&A;

- The Company's expectations regarding the impact of proposed minimum wage increases in Ontario and Alberta and the Company's ability to mitigate the financial impact of these increases which may be impacted by the Company's mitigation efforts and factors described under the heading "Minimum Wage Increases";

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

- 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; 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 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 the fiscal 2017 annual 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 the 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: (i) Food retailing and (ii) Investments and other operations. With approximately $23.9 billion in annualized 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 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 Lawtons Drugs as well as more than 350 retail fuel locations.

Strategic Imperatives(1)

In the fourth quarter of fiscal 2017, the Company launched Project Sunrise, a comprehensive three year transformation intended to simplify organizational structures and reduce costs. The transformation is expected to result in 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 Project Sunrise, the Company is focused on four primary strategic initiatives:

(i) Organizational Structure Changes

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. 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. This initiative will not only reduce costs, but result in an increased level of authority and scope for leadership, allowing for more nimble and responsive decision making to support the needs of customers and capitalize on changes in the marketplace.

The full redesign and execution of the organizational structure is expected to be completed by the end of fiscal 2018. As a result of this transformation initiative, the Company incurred costs of approximately $40 million in the first quarter of fiscal 2018. In total, the Company expects to incur approximately $200 million in one-time costs associated with severance, relocation, consulting and minor system developments, most of which is expected to be incurred in the first half of fiscal 2018.

(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. Execution against these 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.

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

(iii) Customer Focus

Significant work is underway to better understand Sobeys' brands banner positioning, customers and marketing initiatives. 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 West business unit arising from the integration of the Canada Safeway acquisition have resulted in significant decreases in sales and profitability. The results of the first quarter showed improvement as store execution was stronger and promotional mix improved. There is a significant amount of improvement still required to regain customers trust and return this business to acceptable levels of profitability.

Other Significant Item

Minimum Wage Increases

The Company estimates the unmitigated financial impact of the proposed minimum wage increases in Ontario and Alberta could be up to approximately $25 million in fiscal 2018 and $70 million in fiscal 2019. These estimates represent only the wage increase for people in the business earning less than the anticipated new wage rates, and do not assume any changes in the compensation of other wage bands.

The Company has developed plans to mitigate the immediate impact of the proposed minimum wage increases in fiscal 2018 that are above and beyond the anticipated Project Sunrise savings and continues to develop further plans to mitigate the proposed minimum wage increase in fiscal 2019.

Investments and Other Operations

Empire's Investments and other operations segment, as of August 5, 2017, included:

1. A 41.5% (40.3% fully diluted) equity accounted interest in Crombie Real Estate Investment Trust ("Crombie REIT"), an open-ended Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 283 income-producing properties across Canada, comprising approximately 19.2 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% equity accounted interest in Genstar Development Partnership, a 48.6% equity accounted interest in Genstar Development Partnership II, a 39.0% equity accounted interest in GDC Investments 4, L.P., a 42.1% equity accounted interest in GDC Investments 6, L.P., a 39.0% equity accounted interest in GDC Investments 7, L.P., a 37.1% equity accounted interest in GDC Investments 8, L.P. and a 49.0% equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar").

SUMMARY RESULTS – FIRST QUARTER

($ in millions, except per share amounts)	13 Weeks Ended August 5, 2017	August 6, 2016	$ Change	% Change
Sales	**$ 6,273.2**	$ 6,186.6	$ 86.6	1.4%
Gross profit[1]	**1,531.0**	1,490.8	40.2	2.7%
EBITDA[1]	**238.8**	238.3	0.5	0.2%
Adjusted EBITDA[1]	**278.8**	243.1	35.7	14.7%
Operating income	**125.2**	126.6	(1.4)	(1.1)%
Finance costs, net	**28.7**	31.2	(2.5)	(8.0)%
Income tax expense	**30.1**	17.8	12.3	69.1%
Non-controlling interest	**12.4**	12.2	0.2	1.6%
Net earnings[2]	**54.0**	65.4	(11.4)	(17.4)%
Adjusted net earnings[1][2]	**87.5**	73.6	13.9	18.9%
Basic earnings per share				
Net earnings[2]	**$ 0.20**	$ 0.24	$ (0.04)	
Adjusted net earnings[1][2]	**$ 0.32**	$ 0.27	$ 0.05	
Basic weighted average number of shares outstanding (in millions)	**271.5**	271.7		
Diluted earnings per share				
Net earnings[2]	**$ 0.20**	$ 0.24	$ (0.04)	
Adjusted net earnings[1][2]	**$ 0.32**	$ 0.27	$ 0.05	
Diluted weighted average number of shares outstanding (in millions)	**271.6**	271.7		
Dividend per share	**$ 0.1050**	$ 0.1025		

(Consolidated operating results as a % of sales)	13 Weeks Ended August 5, 2017	August 6, 2016
Gross profit	**24.4%**	24.1%
EBITDA	**3.8%**	3.9%
Adjusted EBITDA	**4.4%**	3.9%
Operating income	**2.0%**	2.0%
Net earnings[2]	**0.9%**	1.1%
Adjusted net earnings[2]	**1.4%**	1.2%

	13 Weeks Ended August 5, 2017	August 6, 2016
Same-store sales[1] growth (decline)	**0.5%**	(1.8)%
Same-store sales growth (decline), excluding fuel	**0.5%**	(1.2)%
Effective income tax rate	**31.2%**	18.7%
Interest coverage[1]	**4.9x**	4.9x

The following is a review of Empire's Food retailing segment's financial performance. The 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)	13 Weeks Ended August 5, 2017	August 6, 2016	$ Change	% Change
Sales	**$ 6,273.2**	$ 6,186.6	$ 86.6	1.4%
Gross profit	**1,531.0**	1,490.8	40.2	2.7%
EBITDA	**224.9**	223.4	1.5	0.7%
Adjusted EBITDA	**264.9**	228.2	36.7	16.1%
Operating income	**111.3**	111.8	(0.5)	(0.4)%
Net earnings[2]	**49.7**	56.6	(6.9)	(12.2)%
Adjusted net earnings[2]	**83.2**	64.8	18.4	28.4%

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Net of non-controlling interest.

Sales

Sales for the first quarter increased by 1.4%, as same-store sales were higher in most areas of the country, driven by increases in traffic, basket size and more disciplined pricing strategies. Food inflation was positive for the quarter, which also had a positive effect on sales.

Gross Profit

The increase in gross profit during the 13 weeks ended August 5, 2017 was a result of an increase in same-store sales, combined with improved store execution and promotional strategies, and a continued focus on stabilizing margin rates, reflected in gross margins that increased from 24.1% to 24.4%.

EBITDA

EBITDA increased in the 13 weeks ended August 5, 2017 mainly as a result of the previously mentioned factors affecting sales, partially offset by increases in selling and administrative expenses largely a result of $40.0 million in one-time Project Sunrise costs. Excluding the effects of these costs, adjusted EBITDA increased by 14.6%, to $278.8 million.

	13 Weeks Ended		$
($ in millions)	**August 5, 2017**	August 6, 2016	Change
EBITDA	**$ 238.8**	$ 238.3	$ 0.5
Adjustments:			
Costs related to Project Sunrise	**40.0**	-	
Historical organizational realignment costs	**-**	2.7	
Distribution centre restructuring	**-**	2.1	
	40.0	4.8	35.2
Adjusted EBITDA	**$ 278.8**	$ 243.1	$ 35.7

Finance Costs

For the first quarter of fiscal 2018, net finance costs decreased from the same period last year due to debt repayments and decreased accretion expense on provisions. Interest coverage was consistent with prior year.

Income Taxes

The effective tax rate for the quarter of 31.2% was affected by an adjustment to deferred taxes related to the flow-through effects to the Company of the completion by Crombie REIT of a tax reorganization. Excluding this adjustment, the effective tax rate for the quarter would have been 26.2%. In the prior year quarter, the effective income tax rate of 18.7% was lower than the Company’s statutory rate as properties were sold to Crombie REIT on a tax deferred basis.

Net Earnings

For the 13 weeks ended August 5, 2017, net earnings, net of non-controlling interest, were primarily impacted by the reasons noted in the sales and EBITDA sections.

($ in millions, except per share amounts)	13 Weeks Ended August 5, 2017	August 6, 2016	$ Change
Net earnings[1]	**$ 54.0**	$ 65.4	$ (11.4)
EPS[2] (fully diluted)	**$ 0.20**	$ 0.24	$ (0.04)
Adjustments (net of income taxes):			
Costs related to Project Sunrise	**28.7**	-	
Intangible amortization associated with the Canada Safeway acquisition	**4.8**	4.7	
Historical organizational realignment costs	**-**	2.0	
Distribution centre restructuring	**-**	1.5	
	33.5	8.2	25.3
Adjusted net earnings[1]	**$ 87.5**	$ 73.6	$ 13.9
Adjusted EPS (fully diluted)	**$ 0.32**	$ 0.27	$ 0.05
Diluted weighted average number of shares outstanding (in millions)	**271.6**	271.7	

(1) Net of non-controlling interest.
(2) Earnings per share ("EPS").

Investments and Other Operations

($ in millions)	13 Weeks Ended August 5, 2017	August 6, 2016	$ Change
Crombie REIT	**$ 8.4**	$ 11.2	$ (2.8)
Real estate partnerships (Genstar)	**4.1**	5.7	(1.6)
Other operations, net of corporate expenses	**1.4**	(2.1)	3.5
	$ 13.9	$ 14.8	$ (0.9)

Operating Income

Crombie REIT's contribution to Empire decreased for the quarter principally due to increased costs related to acquisition activity by Crombie REIT. Genstar's contribution to Empire was lower than last year due to fewer lot sales in the first quarter. These decreases were partially offset by an increase in income from other operations as a result of losses incurred on sales of properties in the prior year.

Investment Portfolio

At August 5, 2017, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

($ in millions)	August 5, 2017 Fair Value	Carrying Value	Unrealized Gain	May 6, 2017 Fair Value	Carrying Value	Unrealized Gain	August 6, 2016 Fair Value	Carrying Value	Unrealized Gain
Investment in associates									
Crombie REIT[1]	**$ 833.6**	**$ 457.8**	**$ 375.8**	$ 883.6	$ 459.1	$ 424.5	$ 937.5	$ 460.2	$ 477.3
Canadian real estate partnerships[2]	**135.8**	**135.8**	**-**	143.0	143.0	-	151.9	151.9	-
U.S. real estate partnerships[2]	**34.9**	**34.9**	**-**	36.8	36.8	-	47.0	47.0	-
Investment in joint ventures									
Canadian Digital Cinema Partnership[2]	**9.7**	**9.7**	**-**	9.5	9.5	-	9.4	9.4	-
	$ 1,014.0	**$ 638.2**	**$ 375.8**	$ 1,072.9	$ 648.4	$ 424.5	$ 1,145.8	$ 668.5	$ 477.3

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of August 4, 2017.
(2) Assumes fair value equals carrying value.

QUARTERLY RESULTS OF OPERATIONS

	Fiscal 2018	Fiscal 2017			Fiscal 2016			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
($ in millions, except	**(13 Weeks)**	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)	(14 Weeks)	(13 Weeks)	(13 Weeks)
per share amounts)	**Aug. 5, 2017**	May 6, 2017	Feb. 4, 2017	Nov. 5, 2016	Aug. 6, 2016	May 7, 2016	Jan. 30, 2016	Oct. 31, 2015
Sales	**$ 6,273.2**	$ 5,798.9	$ 5,889.8	$ 5,930.9	$ 6,186.6	$ 6,283.2	$ 6,027.2	$ 6,059.2
EBITDA(1)	**238.8**	171.7	179.4	187.8	238.3	(1,047.2)	(1,467.9)	256.3
Operating income (loss)	**125.2**	61.4	68.6	76.4	126.6	(1,160.2)	(1,589.8)	136.0
Net earnings (loss)(2)	**$ 54.0**	$ 29.5	$ 30.5	$ 33.1	$ 65.4	$ (942.6)	$ (1,365.7)	$ 68.5
Per share information, basic								
Net earnings (loss)(2)(3)	**$ 0.20**	$ 0.11	$ 0.11	$ 0.12	$ 0.24	$ (3.47)	$ (5.03)	$ 0.25
Basic weighted average number of shares outstanding (in millions)	**271.5**	271.7	271.1	271.6	271.7	271.7	271.7	275.2
Per share information, diluted								
Net earnings (loss)(2)(3)	**$ 0.20**	$ 0.11	$ 0.11	$ 0.12	$ 0.24	$ (3.47)	$ (5.03)	$ 0.25
Diluted weighted average number of shares outstanding (in millions)	**271.6**	271.7	271.7	272.2	271.7	271.7	271.8	275.5

(1) EBITDA is reconciled to net earnings (loss), net of non-controlling interest, 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 quarter of fiscal 2018 compared to the same period in fiscal 2017 improved due to a number of factors including food inflation, improvement in our store execution promotional strategies and increased basket size.

- The results of the second quarter of 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 show decreased sales, but an increase in operating income and net earnings, when 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.

- 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 of fiscal 2016, totaling $10.9 million for long-lived assets and $1,285.9 million for goodwill.

Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. The Company does experience some seasonality, as evidenced in the results presented above, in particular during the summer months and over the holidays. The sales, EBITDA, operating income and net earnings, 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 and by other risk factors as outlined in the "Risk Management" section of the fiscal 2017 annual MD&A.

LIQUIDITY AND CAPITAL RESOURCES

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

($ in millions)	13 Weeks Ended August 5, 2017	13 Weeks Ended August 6, 2016	$ Change
Cash flows from operating activities	**$ 175.5**	$ 239.3	$ (63.8)
Cash flows (used in) from investing activities	**(50.5)**	257.8	(308.3)
Cash flows used in financing activities	**(97.1)**	(481.7)	384.6
Increase in cash and cash equivalents	**$ 27.9**	$ 15.4	$ 12.5

Operating Activities

The decrease in cash flows from operating activities for the 13 weeks ended August 5, 2017 was primarily a result of the timing of certain payments for accounts payable and accrued liabilities when compared to the comparable fiscal quarter.

Investing Activities

The decrease in cash from investing activities for the 13 weeks ended August 5, 2017 when compared to the prior quarter was mainly due to a sale leaseback agreement entered into with Crombie REIT in fiscal 2017, resulting in decreased cash proceeds on disposal of property, equipment and investment property.

The table below outlines the number of stores Sobeys invested in during the 13 weeks ended August 5, 2017 compared to the 13 weeks ended August 6, 2016.

# of stores	13 Weeks Ended August 5, 2017	13 Weeks Ended August 6, 2016
Opened/relocated/acquired	**10**	14
Expanded	**2**	5
Rebannered/redeveloped	**9**	12
Closed – normal course of operations	**15**	12

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended August 5, 2017 by type:

Square feet (in thousands)	**13 Weeks Ended August 5, 2017**	**52 Weeks Ended August 5, 2017**
Opened	**28**	**667**
Relocated	**63**	**259**
Acquired	**-**	**5**
Expanded	**9**	**18**
Closed – normal course of operations	**(118)**	**(458)**
Net change	**(18)**	**491**

At August 5, 2017, Sobeys' square footage totaled 39.2 million, a 1.3% increase over the 38.7 million square feet operated at August 6, 2016.

Financing Activities

The cash used in financing activities during the 13 weeks ended August 5, 2017 decreased from the comparative fiscal quarter in fiscal 2017, primarily due to the repayment of $355.0 million on the Sobeys' revolving long-term credit facility ("RT Facility") and the repayment of $300.0 million on the senior unsecured notes in fiscal 2017. This was partially offset by $155.0 million drawn on the RT Facility and $96.0 million drawn on the Company's credit facility in fiscal 2017.

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 August 5, 2017		13 Weeks Ended August 6, 2016		$ Change
Cash flows from operating activities	**$**	**175.5**	$	239.3	$	(63.8)
Add: proceeds on disposal of property, equipment and investment property		**5.7**		342.6		(336.9)
Less: property, equipment and investment property purchases		**(61.5)**		(126.3)		64.8
Free cash flow	**$**	**119.7**	$	455.6	$	(335.9)

The decrease in free cash flow for the 13 weeks ended August 5, 2017 compared to the 13 weeks ended August 6, 2016, was mainly due to the sale leaseback agreement entered into with Crombie REIT in the prior year, combined with decreased cash flows from operating activities, offset by a decrease in capital purchases. From an operating activities perspective, although earnings improved from last year, working capital had a large accounts payable increase in the prior year causing a deviation on a comparable basis.

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

Employee Future Benefit Obligations

For the 13 weeks ended August 5, 2017, the Company contributed $1.9 million (2017 – $2.2 million) to its registered defined benefit pension plans. The Company expects to contribute approximately $23.3 million in fiscal 2018 to these plans.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		**August 5, 2017**		May 6, 2017		August 6, 2016[1]
Shareholders' equity, net of non-controlling interest	**$**	**3,683.5**	$	3,644.2	$	3,664.7
Book value per common share[2]	**$**	**13.57**	$	13.41	$	13.49
Long-term debt, including current portion	**$**	**1,818.3**	$	1,870.8	$	1,936.9
Funded debt to total capital[2]		**33.0%**		33.9%		34.6%
Net funded debt to net total capital[2]		**30.1%**		31.3%		31.1%
Funded debt to adjusted EBITDA[2][3]		**2.2x**		2.3x		1.8x
Adjusted EBITDA to interest expense[2][3][4]		**8.1x**		7.7x		9.6x
Trailing four-quarter adjusted EBITDA	**$**	**832.6**	$	796.9	$	1,079.3
Trailing four-quarter interest expense	**$**	**102.7**	$	103.1	$	112.3
Current assets to current liabilities		**0.9x**		0.9x		0.9x
Total assets	**$**	**8,688.8**	$	8,695.5	$	8,879.0
Total non-current financial liabilities	**$**	**2,455.7**	$	2,502.1	$	2,663.8

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated balance sheets.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) Calculation uses trailing four-quarter adjusted EBITDA.
(4) Calculation uses trailing four-quarter adjusted EBITDA and interest expense.

During the 13 weeks ended August 5, 2017, Sobeys' credit ratings remained unchanged.

Rating Agency	**Credit Rating (Issuer rating)**	**Trend/Outlook**
Dominion Bond Rating Service	BB (high)	Negative
Standard and Poor's	BB+	Stable

On June 2, 2017, Sobeys entered a new, senior, unsecured non-revolving credit facility for $500.0 million. The facility bears floating interest tied to Canadian prime rate or bankers' acceptance rates. The facility is intended to be used to repay long-term debt due in calendar 2018.

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.

The Company's financing facilities include certain financial and non-financial covenants. All covenants were complied with for the 13 weeks ended August 5, 2017.

Shareholders' Equity

The Company's share capital was comprised of the following on August 5, 2017:

		Number of Shares	
Authorized		**August 5, 2017**	August 6, 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**	**August 5, 2017**	August 6, 2016
Non-Voting Class A shares	**173,537,901**	**$ 2,037.8**	$ 2,037.8
Class B common shares	**98,138,079**	**7.3**	7.3
Shares held in trust	**(371,876)**	**(7.2)**	-
Total		**$ 2,037.9**	$ 2,045.1

The increase in shareholders' equity, net of non-controlling interest, of $39.3 million from fiscal year ended 2017 mainly reflects the increase in retained earnings.

The Company's share capital on August 5, 2017 compared to the same period in the last fiscal year is shown in the table below.

	13 Weeks Ended	
(Number of Shares)	**August 5, 2017**	August 6, 2016
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**173,537,901**	173,537,901
Issued during period	**-**	-
Issued and outstanding, end of period	**173,537,901**	173,537,901
Shares held in trust, beginning of period	**(555,409)**	-
Issued for future settlement of equity settled plans	**185,983**	-
Purchased for future settlement of equity settled plans	**(2,450)**	-
Shares held in trust, end of period	**(371,876)**	-
Issued and outstanding, net of shares held in trust, end of period	**173,166,025**	173,537,901
Class B common shares		
Issued and outstanding, beginning of period	**98,138,079**	98,138,079
Issued during period	**-**	-
Issued and outstanding, end of period	**98,138,079**	98,138,079

During the first quarter of fiscal 2018, the Company paid common dividends of $28.5 million (2017 – $27.8 million) to its equity holders. This represents a payment of $0.1050 per share (2017 – $0.1025 per share) for common shareholders.

As at September 14, 2017, the Company had Non-Voting Class A and Class B common shares outstanding of 173,537,901 and 98,138,079, respectively. Options to acquire 5,973,136 Non-Voting Class A shares were outstanding as of August 5, 2017 (2017 – 5,198,063).

ACCOUNTING **S**TANDARDS AND **P**OLICIES

The unaudited interim condensed 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 6, 2017 with the exception of the following:

Change to Accounting Policies Adopted During Fiscal 2018

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 changes. These amendments became effective during the first quarter of fiscal 2018 and had no material impact on the Company's consolidated financial statements. A reconciliation of long-term debt has been presented in Note 8 of the Company's unaudited interim condensed consolidated financial statements.

Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2, "Share-based payment". The amendments provide clarification around the effects of vesting conditions on cash-settled share-based payment transactions, classification of share-based payment transactions with net settlement features and modification of the terms and conditions of a share-based payment that changes the classification of the transaction. These amendments are effective for annual periods beginning on or after January 1, 2018. The Company early adopted these amendments in the first quarter of fiscal 2018 as some of the share-based compensation plans have been settled net of tax.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2017 annual MD&A.

Internal Control Over Financial Reporting

Management of the Company, which includes the President & Chief Executive Officer and Chief Financial Officer, 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.

There have been no changes in the Company's ICFR during the period beginning May 7, 2017 and ended August 5, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

RELATED **P**ARTY **T**RANSACTIONS

The Company has related party transactions with Crombie REIT, including ongoing leases, and property management agreements discussed in detail in the fiscal 2017 annual MD&A. There have been no material changes to the specified contractual obligations between the Company and Crombie REIT during the quarter, other than as described below. The Company holds a 41.5% ownership interest in Crombie REIT and accounts for its investment using the equity method.

On July 4, 2017, Crombie REIT redeemed its 5.00% Series D Convertible Unsecured Subordinate Debentures. In exchange for its investment in the Series D convertible debentures, the Company received $24.3 million in principal and interest payments.

CONTINGENCIES

The Company is subject to claims and litigation arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material.

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

Risk and uncertainties related to economic and industry factors and the Company's management of risk are discussed in detail in the fiscal 2017 annual MD&A.

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 the Company'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 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 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, before finance costs (net of finance income), income tax expense, depreciation and amortization of intangibles. The exclusion of depreciation and amortization of intangibles partially eliminates the non-cash impact from operating income.

The following table reconciles net earnings to EBITDA:

	13 Weeks Ended	
($ in millions)	**August 5, 2017**	August 6, 2016
Net earnings	**$ 66.4**	$ 77.6
Income taxes expense	**30.1**	17.8
Finance costs, net	**28.7**	31.2
Operating income	**125.2**	126.6
Depreciation	**90.5**	89.1
Amortization of intangibles	**23.1**	22.6
EBITDA	**$ 238.8**	$ 238.3

- 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 "Summary Results – First Quarter" 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 or loss. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting total finance income.

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

	13 Weeks Ended	
($ in millions)	**August 5, 2017**	August 6, 2016
Finance costs, net	**$ 28.7**	$ 31.2
Plus: finance income	**1.2**	1.6
Less: net pension finance costs	**(2.9)**	(2.9)
Less: accretion expense on provisions	**(1.3)**	(3.8)
Interest expense	**$ 25.7**	$ 26.1

- Adjusted net earnings are net earnings, 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 are reconciled in its respective subsection of the "Summary Results – First Quarter" and "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 GAAP measures as reported on the condensed consolidated statements of cash flows 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 the best indicator of the Company's total financial obligations on which interest payments are made.

- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company's financial obligations after 100% 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 August 5, 2017, May 6, 2017 and August 6, 2016, respectively:

($ in millions)		**August 5, 2017**		May 6, 2017		August 6, 2016(1)
Long-term debt due within one year	**$**	**126.4**	$	134.0	$	57.8
Long-term debt		**1,691.9**		1,736.8		1,879.1
Funded debt		**1,818.3**		1,870.8		1,936.9
Less: cash and cash equivalents		**(235.2)**		(207.3)		(280.1)
Net funded debt		**1,583.1**		1,663.5		1,656.8
Total shareholders' equity, net of non-controlling interest		**3,683.5**		3,644.2		3,664.7
Net total capital	**$**	**5,266.6**	$	5,307.7	$	5,321.5

($ in millions)		**August 5, 2017**		May 6, 2017		August 6, 2016(1)
Funded debt	**$**	**1,818.3**	$	1,870.8	$	1,936.9
Total shareholders' equity, net of non-controlling interest		**3,683.5**		3,644.2		3,664.7
Total capital	**$**	**5,501.8**	$	5,515.0	$	5,601.6

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated balance sheets.

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.
- 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 August 5, 2017, May 6, 2017 and August 6, 2016.

($ in millions, except per share information)		**August 5, 2017**		May 6, 2017		August 6, 2016[1]
Shareholders' equity, net of non-controlling interest	**$**	**3,683.5**	$	3,644.2	$	3,664.7
Shares outstanding (basic)		**271.5**		271.7		271.7
Book value per common share	**$**	**13.57**	$	13.41	$	13.49

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated balance sheets.

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: September 14, 2017
Stellarton, Nova Scotia, Canada