

Management's Discussion & Analysis

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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 and 52 weeks ended May 5, 2018 compared to the 13 and 52 weeks ended May 6, 2017. The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the 52 weeks ended May 5, 2018, and the 52 weeks ended May 6, 2017. 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") 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 27, 2018, 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 cost savings and efficiencies resulting from this transformation initiative, and the expected timing of the realization of fiscal 2019 in-year incremental benefits, 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";
- The Company's expectations regarding the implementation of its online grocery shopping business including the timing of launching the business, the overall customer response to the service and the performance of its business partner, Ocado Group plc ("Ocado");
- The Company's expectations regarding the impact of healthcare reform that came into effect on April 1, 2018 which may be impacted by factors described under the headings "Healthcare Reform" and "Risk Management – Drug Regulation, Legislation and Healthcare Reform";
- The Company's expectations regarding the impact of minimum wage increases in Ontario and Alberta, other incremental impacts of the Fair Workplaces, Better Jobs Act, 2017 ("Bill 148") and the Company's ability to mitigate the financial impact of these increases which may be impacted by 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.

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.

MANAGEMENT'S DISCUSSION & ANALYSIS

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 \$24.2 billion in annualized sales and \$8.7 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 120,000 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 Focus⁽¹⁾

The Company has established a strategy that is designed to address an evolving retail environment while remaining focused on customer needs and improving the Company's overall service offering. The strategy will evolve as the Company continues to reorganize and transform to a nationally led and focused organization.

(i) Resetting the Foundation

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 result in at least \$500.0 million in annualized cost savings by the end of fiscal 2020.

In fiscal 2018, benefits realized by the Company from the transformation initiative, were comprised of organizational design cost reductions, improvements in store operations and cost reductions from strategic sourcing. The in-year benefit was approximately 20% of the total target, the majority of which was achieved in the second half of the year.

For fiscal 2019, management expects that benefits will be derived from the annualized effect of initiatives during fiscal 2018, plus other operational initiatives. Management estimates up to a further 30% of the Company's target can be achieved during the year. The majority of the incremental benefit would accrue to the Company in the second half of fiscal 2019.

Organizational Structure Changes

Changes in the Company's organizational structure included collapsing multiple independent regional businesses into a national, functionally-led structure, simplifying how the Company does business and enabling it to leverage its scale. The transformation initiative is intended to address the complex organizational structure that has resulted in significant duplication and lack of clear, defined accountabilities. This initiative will reduce costs as a result of reduced headcount and consistent processes, and will 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 Company incurred costs of \$23.5 million and \$209.0 million for the 13 and 52 weeks ended May 5, 2018, respectively, related to this transformational initiative. This phase of the Company's three year transformation is complete. Cost benefits related to this phase, which are included in the total benefits estimate of at least \$500.0 million, are expected to meet or exceed management's expectations.

(ii) Bolstering the Brand

The Company is focused on improving customer connection with its banner brands and differentiating these brands in a highly competitive marketplace. Management has undertaken a comprehensive review of its customers and the relative positioning of its categories and store banners and is developing long-term strategic initiatives that will be implemented over the next several years.

(iii) Improved Service and Offering in Conventional Stores

Conventional stores will remain a key area of focus as management continues to evaluate and prioritize destination product categories designed to provide customers with the products they want at competitive prices while improving overall customer experience in conventional store banners.

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

(iv) Enhance Discount

Discount continues to be a high growth area in food retailing. Sobeys is refining its existing discount model and in fiscal 2018 announced plans to expand its discount banner to Western Canada. The Company will convert up to 25% of its 255 Safeway and Sobeys full service format stores in Western Canada to its FreshCo banner over the next five years with the first discount stores opening by the third quarter of fiscal 2019. In addition to the expansion of discount format stores to Western Canada, the Company is updating the branding of the current FreshCo banner with four pilot stores launching in London, Ontario during the first quarter of fiscal 2019.

(v) Win E-commerce

In January 2018, Sobeys announced it had signed an agreement with Ocado, an industry-leading grocery e-commerce company, to launch a central pick, home delivery online grocery shopping business. Management expects this online business will participate in the rapidly growing online grocery shopping channel. Sobeys and Ocado are developing the first Customer Fulfillment Centre ("CFC") in the Greater Toronto Area with delivery to customers expected in the Spring of 2020. Sobeys and Ocado expect to deploy additional CFCs in Canada's major urban centres.

Other Significant Items**Minimum Wage Increases**

The Company expects to incur increased labour costs as a result of minimum wage increases in Ontario and Alberta and other effects associated with Bill 148 that was passed into law in Ontario on November 27, 2017. Management was successful in mitigating the financial impact of these increased labour costs in fiscal 2018 and continues to develop further plans to mitigate the full year impacts for fiscal 2019 onward. However, there is some risk that the Company may not be able to fully offset the effects on earnings considering the short transition period of the cost increases. The Company estimates the unmitigated financial impact of the minimum wage increases, and other impacts including wage parity could be up to \$90 million in fiscal 2019.

Commercial Bread Investigation

The Canadian Competition Bureau is currently investigating the practices of certain suppliers and retailers, including the Company, with regard to the supply and sale of commercial bread in Canada beginning in 2001. The Company is fully cooperating with the Competition Bureau. Based on the information available to date, the Company does not believe that it or any of its employees have violated the Competition Act.

Class action lawsuits have been filed against the Company, the suppliers and other retailers regarding the allegations.

While both the Competition Bureau investigation and the class action lawsuits are in the early stages, at this time the Company does not believe that they will have a material adverse effect on the Company's business or financial condition.

Healthcare Reform

On January 29, 2018, additional healthcare reform was introduced by the pan-Canadian Pharmaceutical Alliance with the Canadian Generic Pharmaceutical Association that came into effect on April 1, 2018. This resulted in the price reduction of almost 70 high volume generic drugs. The Company estimates that the effect, prior to any mitigation, of these changes may be to reduce annual income before taxes by up to \$40 million.

INVESTMENTS AND OTHER OPERATIONS

Empire's Investments and other operations segment, as of May 5, 2018, included:

1. A 41.5% (40.3% fully diluted) equity accounted interest in Crombie Real Estate Investment Trust ("Crombie REIT"), an Ontario registered, unincorporated, open-ended real estate investment trust. Crombie REIT is one of the country's leading national retail property landlords 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").

MANAGEMENT'S DISCUSSION & ANALYSIS

SUMMARY RESULTS – FOURTH QUARTER

(\$ in millions, except per share amounts)	13 Weeks Ended		\$ Change	% Change
	May 5, 2018	May 6, 2017		
Sales	\$ 5,886.1	\$ 5,798.9	\$ 87.2	1.5%
Gross profit ⁽¹⁾	1,451.3	1,420.9	30.4	2.1%
Operating income	110.6	61.4	49.2	80.1%
Adjusted operating income ⁽¹⁾	139.7	90.1	49.6	55.0%
EBITDA ⁽¹⁾	217.8	171.7	46.1	26.8%
Adjusted EBITDA ⁽¹⁾	240.4	193.9	46.5	24.0%
Finance costs, net	25.4	27.7	(2.3)	(8.3)%
Income tax expense	11.7	1.4	10.3	735.7%
Non-controlling interest	2.5	2.8	(0.3)	(10.7)%
Net earnings ⁽²⁾	71.0	29.5	41.5	140.7%
Adjusted net earnings ⁽¹⁾⁽²⁾	93.0	50.2	42.8	85.3%
Basic earnings per share				
Net earnings ⁽²⁾	\$ 0.26	\$ 0.11	\$ 0.15	
Adjusted net earnings ⁽¹⁾⁽²⁾	\$ 0.35	\$ 0.18	\$ 0.17	
Basic weighted average number of shares outstanding (in millions)	271.8	271.7		
Diluted earnings per share				
Net earnings ⁽²⁾	\$ 0.26	\$ 0.11	\$ 0.15	
Adjusted net earnings ⁽¹⁾⁽²⁾	\$ 0.35	\$ 0.18	\$ 0.17	
Diluted weighted average number of shares outstanding (in millions)	272.2	271.7		
Dividend per share	\$ 0.1050	\$ 0.1025		

(Consolidated operating results as a % of sales)	13 Weeks Ended	
	May 5, 2018	May 6, 2017
Gross margin ⁽¹⁾	24.7%	24.5%
Adjusted operating income ⁽¹⁾	2.4%	1.6%
EBITDA ⁽¹⁾	3.7%	3.0%
Adjusted EBITDA ⁽¹⁾	4.1%	3.3%
Adjusted net earnings ⁽¹⁾⁽²⁾	1.6%	0.9%

	13 Weeks Ended	
	May 5, 2018	May 6, 2017
Same-store sales ⁽¹⁾ growth (decline)	0.5%	(1.1)%
Same-store sales growth (decline), excluding fuel	0.0%	(1.6)%
Effective income tax rate	13.7%	4.2%

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

(2) Net of non-controlling interest.

Sales

Sales increased by 1.5% for the 13 weeks ended May 5, 2018. Food inflation was positive which contributed to the increase in sales, although same-store sales were consistent with last year. Sales were affected by an aggressive industry promotional environment and the effect of winding down 10 underperforming stores in British Columbia. These stores are scheduled to close in the first quarter of fiscal 2019. Excluding related businesses, same-store sales for food increased and estimated food tonnage sold was consistent with last year.

Gross Profit

Gross profit increased by 2.1% compared to last year due to increases in sales and stable margins as management focused on improved store execution and promotional strategies, in addition to stabilizing and improving margin rates which still continues. Gross margin increased from 24.5% to 24.7% in the fourth quarter of fiscal 2018.

Operating Income

(\$ in millions)	13 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Consolidated operating income			
Sobeys contribution	\$ 95.2	\$ 52.5	\$ 42.7
Investments and other operations			
Crombie REIT	10.8	7.7	3.1
Real estate partnerships	3.3	4.9	(1.6)
Other operations, net of corporate expenses	1.3	(3.7)	5.0
	15.4	8.9	6.5
	\$ 110.6	\$ 61.4	\$ 49.2

For the 13 weeks ended May 5, 2018, operating income increased mainly as a result of improvements in sales and margins, benefits related to Project Sunrise and other cost efficiencies and a gain on sale of assets to Crombie REIT. These results were partially offset by expenses related to Project Sunrise and increases in incentive compensation accruals due to improved performance.

Operating income from the Investments and other operations segment increased primarily as a result of improved earnings from Crombie REIT and other operations. The increase in income from other operations can be attributed primarily to losses incurred in the prior year including a dilution loss and a loss on disposal of property.

(\$ in millions)	13 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Operating income	\$ 110.6	\$ 61.4	\$ 49.2
Adjustments:			
Costs related to Project Sunrise	22.3	15.8	
Intangible amortization associated with the Canada Safeway acquisition	6.5	6.5	
West business unit store closures	0.3	–	
Distribution centre restructuring	–	4.3	
Network rationalization	–	3.0	
Historical organizational realignment reversals	–	(0.9)	
	29.1	28.7	0.4
Adjusted operating income	\$ 139.7	\$ 90.1	\$ 49.6

EBITDA

EBITDA and adjusted EBITDA increased in the 13 weeks ended May 5, 2018 as a result of improvements in sales, benefits related to Project Sunrise and the gain on sale of assets to Crombie REIT. Adjusted EBITDA as a percentage of sales increased from 3.3% to 4.1% as a result of efficiencies realized from Project Sunrise and improved gross margins.

(\$ in millions)	13 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
EBITDA	\$ 217.8	\$ 171.7	\$ 46.1
Adjustments:			
Costs related to Project Sunrise	22.3	15.8	
West business unit store closures	0.3	–	
Distribution centre restructuring	–	4.3	
Network rationalization	–	3.0	
Historical organizational realignment reversals	–	(0.9)	
	22.6	22.2	0.4
Adjusted EBITDA	\$ 240.4	\$ 193.9	\$ 46.5

Finance Costs

For the 13 weeks ended May 5, 2018, net finance costs decreased primarily due to a decrease in interest expense caused by repayment of \$100.0 million Series C Medium term notes during the quarter. In addition, net borrowing levels, primarily drawn on Empire's credit facility were lower in the fourth quarter of fiscal 2018 compared to last year further decreasing interest expense. Adjusted interest coverage⁽¹⁾ increased to 6.5 times from 3.5 times in the fourth quarter of fiscal 2018 as a result of an increase in adjusted operating income and lower financing costs.

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

MANAGEMENT'S DISCUSSION & ANALYSIS

Income Taxes

The effective income tax rate for the 13 weeks ended May 5, 2018 was 13.7% compared to 4.2% in the same quarter last year. The current year's effective tax rate is lower than the statutory rate primarily due to an internal reorganization that the Company undertook during the quarter to simplify its corporate structure resulting in an increase in the rate applied to deferred tax assets and gains on the sale of retail properties to Crombie REIT. The prior period's effective rate was lower than the statutory rate due to the remeasurement of the Company's deferred income tax provision and the impact of capital gain transactions.

Net Earnings

The following is a reconciliation of adjusted net earnings:

(\$ in millions, except per share amounts)	13 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Net earnings ⁽¹⁾	\$ 71.0	\$ 29.5	\$ 41.5
EPS ⁽²⁾ (fully diluted)	\$ 0.26	\$ 0.11	\$ 0.15
Adjustments (net of income taxes):			
Costs related to Project Sunrise	17.0	11.3	
Intangible amortization associated with the Canada Safeway acquisition	4.8	4.7	
West business unit store closures	0.2	–	
Distribution centre restructuring	–	3.1	
Network rationalization	–	2.2	
Historical organizational realignment reversals	–	(0.6)	
	22.0	20.7	1.3
Adjusted net earnings ⁽¹⁾	\$ 93.0	\$ 50.2	\$ 42.8
Adjusted EPS (fully diluted)	\$ 0.35	\$ 0.18	\$ 0.17
Diluted weighted average number of shares outstanding (in millions)	272.2	271.7	

(1) Net of non-controlling interest.

(2) Earnings per share ("EPS").

OPERATING RESULTS – FULL YEAR

(\$ in millions, except per share amounts)	52 Weeks Ended	52 Weeks Ended	53 Weeks Ended	2018 Compared to 2017	
	May 5, 2018	May 6, 2017	May 7, 2016	\$ Change	% Change
Sales	\$ 24,214.6	\$ 23,806.2	\$ 24,618.8	\$ 408.4	1.7%
Gross profit	5,900.5	5,707.2	5,957.6	193.3	3.4%
Operating income (loss)	346.5	333.0	(2,418.5)	13.5	4.1%
Adjusted operating income	601.7	378.5	713.7	223.2	59.0%
EBITDA	785.7	777.2	(1,944.7)	8.5	1.1%
Adjusted EBITDA	1,014.7	796.9	1,161.4	217.8	27.3%
Finance costs, net	110.5	118.0	137.4	(7.5)	(6.4)%
Income tax expense	56.2	42.5	(441.3)	13.7	32.2%
Non-controlling interest	20.3	14.0	16.4	6.3	45.0%
Net earnings (loss) ⁽¹⁾	159.5	158.5	(2,131.0)	1.0	0.6%
Adjusted net earnings ⁽¹⁾	344.3	191.3	410.2	153.0	80.0%
Basic earnings per share					
Net earnings (loss) ⁽¹⁾	\$ 0.59	\$ 0.58	\$ (7.78)	\$ 0.01	
Adjusted net earnings ⁽¹⁾	\$ 1.27	\$ 0.70	\$ 1.50	\$ 0.57	
Basic weighted average number of shares outstanding (in millions)	271.8	271.9	273.9		
Diluted earnings per share					
Net earnings (loss) ⁽¹⁾	\$ 0.59	\$ 0.58	\$ (7.78)	\$ 0.01	
Adjusted net earnings ⁽¹⁾	\$ 1.27	\$ 0.70	\$ 1.50	\$ 0.57	
Diluted weighted average number of shares outstanding (in millions)	272.1	272.0	274.0		
Dividend per share	\$ 0.42	\$ 0.41	\$ 0.40		

(Consolidated operating results as a % of sales)	52 Weeks Ended May 5, 2018	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016
Gross margin	24.4%	24.0%	24.2%
Adjusted operating income	2.5%	1.6%	2.9%
EBITDA	3.2%	3.3%	(7.9)%
Adjusted EBITDA	4.2%	3.3%	4.7%
Adjusted net earnings ⁽¹⁾	1.4%	0.8%	1.7%

	52 Weeks Ended May 5, 2018	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016
Same-store sales growth (decline)	0.8%	(2.1)%	(0.2)%
Same-store sales growth (decline), excluding fuel	0.5%	(2.2)%	0.3%
Effective income tax rate	23.8%	19.8%	17.3%

(1) Net of non-controlling interest.

Sales

Sales increased by 1.7% for the 52 weeks ended May 5, 2018, as same-store sales were higher in most areas of the country, driven by more disciplined pricing strategies compared to significant deflationary pricing strategies in the prior year. Food inflation was positive, contributing to the increase in sales.

Gross Profit

Gross profit increased by 3.4% compared to last year due to increases in sales and stable margins as management focused on improved store execution and promotional strategies in addition to stabilizing and improving margin rates which still continues. Gross margin increased from 24.0% to 24.4% in fiscal 2018.

Operating Income

For the 52 weeks ended May 5, 2018, operating income increased mainly as a result of improvements in sales and margins, benefits related to Project Sunrise and other cost efficiencies and a gain on sale of assets to Crombie REIT. These results were partially offset by expenses related to Project Sunrise and increases in incentive compensation accruals due to improved performance.

(\$ in millions)	52 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Operating income	\$ 346.5	\$ 333.0	\$ 13.5
Adjustments:			
Costs related to Project Sunrise	207.8	15.8	
Intangible amortization associated with the Canada Safeway acquisition	26.2	25.8	
West business unit store closures	21.2	–	
Distribution centre restructuring	–	9.6	
Gain on disposal of manufacturing facilities	–	(7.5)	
Historical organizational realignment costs	–	3.4	
Network rationalization reversals	–	(1.6)	
	255.2	45.5	209.7
Adjusted operating income	\$ 601.7	\$ 378.5	\$ 223.2

EBITDA

EBITDA increased in the 52 weeks ended May 5, 2018, mainly a result of the previously mentioned factors impacting operating income.

(\$ in millions)	52 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
EBITDA	\$ 785.7	\$ 777.2	\$ 8.5
Adjustments:			
Costs related to Project Sunrise	207.8	15.8	
West business unit store closures	21.2	–	
Distribution centre restructuring	–	9.6	
Gain on disposal of manufacturing facilities	–	(7.5)	
Historical organizational realignment costs	–	3.4	
Network rationalization reversals	–	(1.6)	
	229.0	19.7	209.3
Adjusted EBITDA	\$ 1,014.7	\$ 796.9	\$ 217.8

MANAGEMENT'S DISCUSSION & ANALYSIS

Finance Costs

For the 52 weeks ended May 5, 2018, net finance costs decreased primarily due to a decrease in interest expense caused by repayment of \$100.0 million Series C Medium term notes and a significant decrease in Empire's credit facility balance in fiscal 2018 compared to fiscal 2017. Adjusted interest coverage increased to 6.2 times from 3.7 times during the same period in the prior year as a result of increased adjusted operating income.

Income Taxes

The effective income tax rate for the 52 weeks ended May 5, 2018 increased to 23.8% compared to 19.8% for the 52 weeks ended May 6, 2017. The increase in the effective rate compared to the prior year is primarily attributable to deferred tax expense related to a tax reorganization undertaken by Crombie REIT during the first quarter, partially offset by a recovery in the fourth quarter as a result of an internal reorganization undertaken to simplify its corporate structure, as well as a gain on sale of retail properties to Crombie REIT. Furthermore, Project Sunrise expenses impacted the mix of earnings between legal entities and tax jurisdictions contributing to a higher average effective tax rate in the current year.

In the prior year, the effective tax rate of 19.8% was lower than the Company's statutory rate due to tax consequences for properties sold to Crombie REIT on a tax deferred basis. The substantive enactment of legislation to modify the tax treatment of eligible capital expenditures in prior years also contributed to the lower effective tax rate.

Net Earnings

The following is a reconciliation of adjusted net earnings:

(\$ in millions, except per share amounts)	52 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Net earnings ⁽¹⁾	\$ 159.5	\$ 158.5	\$ 1.0
EPS ⁽²⁾ (fully diluted)	\$ 0.59	\$ 0.58	\$ 0.01
Adjustments (net of income taxes):			
Costs related to Project Sunrise	150.1	11.3	
Intangible amortization associated with the Canada Safeway acquisition	19.2	18.8	
West business unit store closures	15.5	–	
Distribution centre restructuring	–	6.9	
Gain on disposal of manufacturing facilities	–	(5.5)	
Historical organizational realignment costs	–	2.5	
Network rationalization reversals	–	(1.2)	
	184.8	32.8	152.0
Adjusted net earnings ⁽¹⁾	\$ 344.3	\$ 191.3	\$ 153.0
Adjusted EPS (fully diluted)	\$ 1.27	\$ 0.70	\$ 0.57
Diluted weighted average number of shares outstanding (in millions)	272.1	272.0	

(1) Net of non-controlling interest.

(2) Earnings per share ("EPS").

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 5, 2018 compared to the 52 weeks ended May 6, 2017 and 53 weeks ended May 7, 2016.

The following financial information is Sobeys' contribution to Empire as the amounts are net of consolidation adjustments. For further analysis of these adjustments, see the "Operating Results – Full Year" section.

(\$ in millions)	52 Weeks Ended	52 Weeks Ended	53 Weeks Ended	2018 Compared to 2017	
	May 5, 2018	May 6, 2017	May 7, 2016	\$ Change	% Change
Sales	\$ 24,214.6	\$ 23,806.2	\$ 24,618.8	\$ 408.4	1.7%
Gross profit	5,900.5	5,707.2	5,957.6	193.3	3.4%
Operating income (loss)	273.6	259.3	(2,509.2)	14.3	5.5%
Adjusted operating income	528.8	304.8	623.0	224.0	73.5%
EBITDA	712.5	703.2	(2,036.0)	9.3	1.3%
Adjusted EBITDA	941.5	722.9	1,070.1	218.6	30.2%
Net earnings (loss) ⁽¹⁾	116.5	112.7	(2,193.3)	3.8	3.4%
Adjusted net earnings ⁽¹⁾	301.3	145.5	347.9	155.8	107.1%

(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, and are set out below.

(\$ in millions)	52 Weeks Ended May 5, 2018	52 Weeks Ended May 6, 2017	53 Weeks Ended May 7, 2016 ⁽¹⁾
Sales growth (decline)	1.7%	(3.3)%	2.9%
Same-store sales growth (decline)	0.8%	(2.1)%	(0.2)%
Same-store sales growth (decline), excluding fuel	0.5%	(2.2)%	0.3%
Return on equity ⁽²⁾	5.4%	4.9%	(55.4)%
Funded debt to total capital ⁽²⁾	37.1%	39.5%	46.0%
Funded debt to adjusted EBITDA ⁽²⁾	1.7x	2.4x	2.1x
Property, equipment and investment property purchases ⁽³⁾	\$ 239.6	\$ 470.8	\$ 616.2

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

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

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

INVESTMENTS AND OTHER OPERATIONS

(\$ in millions)	52 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Operating income			
Crombie REIT	\$ 39.5	\$ 41.5	\$ (2.0)
Real estate partnerships	33.9	35.1	(1.2)
Other operations, net of corporate expenses	(0.5)	(2.9)	2.4
	\$ 72.9	\$ 73.7	\$ (0.8)

Operating Income

For the 52 weeks ended May 5, 2018, operating income remained consistent as a result of stable equity earnings from Crombie REIT and the Real estate partnerships.

Investment Portfolio

At May 5, 2018, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

(\$ in millions)	May 5, 2018			May 6, 2017		
	Fair Value	Carrying Value	Unrealized Gain	Fair Value	Carrying Value	Unrealized Gain
Investment in associates						
Crombie REIT ⁽¹⁾	\$ 777.1	\$ 448.5	\$ 328.6	\$ 883.6	\$ 459.1	\$ 424.5
Canadian real estate partnerships ⁽²⁾	90.7	90.7	–	143.0	143.0	–
U.S. real estate partnerships ⁽²⁾	23.2	23.2	–	36.8	36.8	–
Investment in joint ventures						
Canadian Digital Cinema Partnership ⁽²⁾	9.4	9.4	–	9.5	9.5	–
	\$ 900.4	\$ 571.8	\$ 328.6	\$ 1,072.9	\$ 648.4	\$ 424.5

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of May 4, 2018.

(2) Assumes fair value equals carrying value.

MANAGEMENT'S DISCUSSION & ANALYSIS

QUARTERLY RESULTS OF OPERATIONS

(\$ in millions, except per share amounts)	Fiscal 2018				Fiscal 2017			
	Q4 (13 Weeks) May 5, 2018	Q3 (13 Weeks) Feb. 3, 2018	Q2 (13 Weeks) Nov. 4, 2017	Q1 (13 Weeks) Aug. 5, 2017	Q4 (13 Weeks) May 6, 2017	Q3 (13 Weeks) Feb. 4, 2017	Q2 (13 Weeks) Nov. 5, 2016	Q1 (13 Weeks) Aug. 6, 2016
Sales	\$ 5,886.1	\$ 6,029.2	\$ 6,026.1	\$ 6,273.2	\$ 5,798.9	\$ 5,889.8	\$ 5,930.9	\$ 6,186.6
EBITDA ⁽¹⁾	217.8	216.1	113.0	238.8	171.7	179.4	187.8	238.3
Operating income	110.6	108.1	2.6	125.2	61.4	68.6	76.4	126.6
Net earnings (loss) ⁽²⁾	71.0	58.1	(23.6)	54.0	29.5	30.5	33.1	65.4
Per share information, basic								
Net earnings (loss) ⁽²⁾	\$ 0.26	\$ 0.21	\$ (0.09)	\$ 0.20	\$ 0.11	\$ 0.11	\$ 0.12	\$ 0.24
Basic weighted average number of shares outstanding (in millions)								
	271.8	271.7	271.8	271.5	271.7	271.1	271.6	271.7
Per share information, diluted								
Net earnings (loss) ⁽²⁾	\$ 0.26	\$ 0.21	\$ (0.09)	\$ 0.20	\$ 0.11	\$ 0.11	\$ 0.12	\$ 0.24
Diluted weighted average number of shares outstanding (in millions)								
	272.2	272.2	271.8	271.6	271.7	271.7	272.2	271.7

(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.

For the most recent eight quarters, results have fluctuated overall with sales consistently improving compared to the same period in the prior year.

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 when retail sales trend higher and can result in stronger operating results. The sales, EBITDA, operating income and net earnings (loss), net of non-controlling interest, have been influenced by 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.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights significant cash flow components for the relevant periods. For additional detail, please refer to the consolidated statement of cash flows in the Company's consolidated financial statements for the 52 weeks ended May 5, 2018.

(\$ in millions)	13 Weeks Ended			52 Weeks Ended		
	May 5, 2018	May 6, 2017	\$ Change	May 5, 2018	May 6, 2017	\$ Change
Cash flows from operating activities	\$ 313.5	\$ 225.8	\$ 87.7	\$ 879.7	\$ 708.5	\$ 171.2
Cash flows from (used in)						
investing activities	33.1	(73.3)	106.4	(39.4)	(35.7)	(3.7)
Cash flows used in						
financing activities	(176.8)	(148.5)	(28.3)	(419.7)	(730.2)	310.5
Increase (decrease) in cash and cash equivalents	\$ 169.8	\$ 4.0	\$ 165.8	\$ 420.6	\$ (57.4)	\$ 478.0

Operating Activities

Cash flows from operating activities for the 13 weeks ended May 5, 2018 increased primarily as a result of an increase in net earnings from improved operations, increased distributions in equity investments and net change in non-cash working capital.

The increase in cash flows from operating activities for the 52 weeks ended May 5, 2018 was attributable to increased distributions by equity investments and net change in non-cash working capital. This was partially offset by one-time Project Sunrise costs incurred in fiscal 2018.

Investing Activities

The table below outlines details of investing activities of the Company during the 13 and 52 weeks ended May 5, 2018 compared to the 13 and 52 weeks ended May 6, 2017:

(\$ in millions)	13 Weeks Ended			52 Weeks Ended		
	May 5, 2018	May 6, 2017	\$ Change	May 5, 2018	May 6, 2017	\$ Change
Investment						
Increase in investments	\$ –	\$ (0.4)	\$ 0.4	\$ –	\$ (0.4)	\$ 0.4
Property, equipment and investment property purchases	(76.1)	(91.8)	15.7	(239.8)	(460.7)	220.9
Proceeds on disposal of assets	113.2	36.8	76.4	217.2	425.7	(208.5)
Additions to intangibles	(7.9)	(20.1)	12.2	(48.2)	(53.8)	5.6
Loans and other receivables	(0.4)	(1.5)	1.1	6.1	12.3	(6.2)
Tenant inducements	–	–	–	–	58.8	(58.8)
Other assets and other long-term liabilities	3.7	3.3	0.4	2.9	2.7	0.2
Business acquisitions	(0.6)	(0.2)	(0.4)	(3.8)	(21.9)	18.1
Interest received	1.2	0.6	0.6	1.9	1.6	0.3
Proceeds on redemption of investment	–	–	–	24.3	–	24.3
Cash flows from (used in) investing activities	\$ 33.1	\$ (73.3)	\$ 106.4	\$ (39.4)	\$ (35.7)	\$ (3.7)

For the 13 weeks ended May 5, 2018, cash from (used in) investing activities increased compared to prior year as a result of an increase in proceeds on the sale of assets due to Sobeys entering into an agreement with Crombie REIT to sell a portfolio of 11 properties, nine of which were leased back.

For the 52 weeks ended May 5, 2018, the increase in cash used in investing activities was a result of decreased proceeds on disposal of assets due to a sale leaseback agreement entered into with Crombie REIT in fiscal 2017 to sell and leaseback 19 retail properties and a 50% interest in each of its three automated distribution centres. The agreement also included a large volume of tenant inducements that further increased cash inflows from investing activities in fiscal 2017. This was offset by reduced capital spend in fiscal 2018.

The Company spent approximately \$288.0 million in capital expenditures which includes acquisitions of property, equipment and investment properties as well as additions to intangibles which was below the estimate of \$350.0 million.

The table below outlines details of investments by Sobeys in its store network during the 13 and 52 weeks ended May 5, 2018 compared to the 13 and 52 weeks ended May 6, 2017.

# of stores	13 Weeks Ended		52 Weeks Ended	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Opened/relocated/acquired	9	16	41	66
Expanded	3	–	11	8
Rebannered/redeveloped	2	7	24	25
Closed in the normal course of operations	8	11	40	40

MANAGEMENT'S DISCUSSION & ANALYSIS

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 5, 2018, by type:

Square feet (in thousands)	13 Weeks Ended May 5, 2018	52 Weeks Ended May 5, 2018
Opened	124	338
Relocated	34	97
Acquired	–	–
Expanded	19	91
Closed in the normal course of operations	(125)	(375)
Net change	52	151

At May 5, 2018, Sobeys' square footage totaled 39.4 million, a 0.5% increase compared to 39.2 million square feet operated at May 6, 2017.

Financing Activities

Cash used in financing activities increased during the 13 weeks ended May 5, 2018 compared to last year primarily due to the repayment of long-term debt, specifically the repayment of the \$100.0 million Series C Medium term notes in the fourth quarter of fiscal 2018.

The cash used in financing activities during the 52 weeks ended May 5, 2018 decreased in fiscal 2018 primarily due to the repayment of \$300.0 million in senior unsecured notes during 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			52 Weeks Ended		
	May 5, 2018	May 6, 2017	\$ Change	May 5, 2018	May 6, 2017	\$ Change
Cash flows from operating activities	\$ 313.5	\$ 225.8	\$ 87.7	\$ 879.7	\$ 708.5	\$ 171.2
Add: proceeds on disposal of property, equipment and investment property	113.2	36.8	76.4	217.2	425.7	(208.5)
Less: property, equipment and investment property purchases	(76.1)	(91.8)	15.7	(239.8)	(460.7)	220.9
Free cash flow	\$ 350.6	\$ 170.8	\$ 179.8	\$ 857.1	\$ 673.5	\$ 183.6

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

Free cash flow increased for the 13 weeks ended May 5, 2018 compared to the 13 weeks ended May 6, 2017 primarily due to improved operating earnings and an increase of proceeds on the sale of property to Crombie REIT. Sobeys entered into an agreement with Crombie REIT to sell a portfolio of 11 properties, nine of which were leased back.

Free cash flow increased for the 52 weeks ended May 5, 2018 compared to the 52 weeks ended May 6, 2017 due to lower levels of capital investments as management was assessing future strategic priorities and improved operating activities. This was partially offset by proceeds received from the disposition of real estate assets to Crombie REIT in the prior year.

Employee Future Benefit Obligations

For the 52 weeks ended May 5, 2018, the Company contributed \$9.3 million (2017 – \$9.8 million) to its registered defined benefit pension plans. The Company expects to contribute approximately \$26.7 million to these plans in fiscal 2019.

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 5, 2018.

(\$ in millions)	2019	2020	2021	2022	2023	Thereafter	Total
Commitments							
Long-term debt ⁽¹⁾	\$ 520.1	\$ 22.6	\$ 52.1	\$ 7.1	\$ 6.3	\$ 1,028.7	\$ 1,636.9
Finance lease liabilities ⁽²⁾	7.3	6.2	4.2	2.6	2.6	13.1	36.0
Third-party operating leases, as lessee ⁽³⁾	256.0	246.0	224.0	200.1	171.8	939.0	2,036.9
Related party operating leases, as lessee ⁽³⁾	166.2	165.0	165.9	159.9	161.0	1,696.7	2,514.7
Contractual obligations	949.6	439.8	446.2	369.7	341.7	3,677.5	6,224.5
Operating leases, as lessor	(14.2)	(13.0)	(11.7)	(10.8)	(10.5)	(62.4)	(122.6)
Contractual obligations, net	\$ 935.4	\$ 426.8	\$ 434.5	\$ 358.9	\$ 331.2	\$ 3,615.1	\$ 6,101.9

(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 23 of the Company's audited annual consolidated financial statements for the 52 weeks ended May 5, 2018.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

(\$ in millions, except per share and ratio calculations)	May 5, 2018	May 6, 2017	May 7, 2016 ⁽¹⁾⁽²⁾
Shareholders' equity, net of non-controlling interest	\$ 3,702.8	\$ 3,644.2	\$ 3,623.9
Book value per common share ⁽³⁾	\$ 13.62	\$ 13.40	\$ 13.23
Long-term debt, including current portion	\$ 1,666.9	\$ 1,870.8	\$ 2,367.4
Funded debt to total capital	31.0%	33.9%	39.5%
Net funded debt to net total capital ⁽³⁾	21.9%	31.3%	36.7%
Funded debt to adjusted EBITDA	1.6x	2.3x	2.0x
Adjusted EBITDA to interest expense ⁽³⁾	10.5x	7.7x	10.2x
Current assets to current liabilities	0.8x	0.9x	1.0x
Total assets	\$ 8,662.0	\$ 8,695.5	\$ 9,138.5
Total non-current financial liabilities	\$ 1,929.9	\$ 2,502.1	\$ 2,735.9

(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 the fiscal 2017 annual MD&A for further detail.

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

For the 52 weeks ended May 5, 2018, Dominion Bond Rating Service ("DBRS") upgraded Sobeys' trend from negative to stable, while Standard and Poor's ("S&P") remained unchanged. Sobeys' credit metrics and financial profile continue to improve due to stronger operating performance and stable financial leverage.

Rating Agency	Credit Rating (Issuer rating)	Trend/Outlook
DBRS	BB (high)	Stable
S&P	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.

MANAGEMENT'S DISCUSSION & ANALYSIS

The Company's financing facilities include certain financial and non-financial covenants. All covenants were complied with for the 13 and 52 weeks ended May 5, 2018.

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 5, 2018.

Shareholders' Equity

The Company's share capital was comprised of the following on May 5, 2018:

Authorized	Number of Shares	
	May 5, 2018	May 6, 2017
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 5, 2018	May 6, 2017
Non-Voting Class A shares, without par value	173,547,591	\$ 2,038.2	\$ 2,037.8
Class B common shares, without par value, voting	98,138,079	7.3	7.3
Shares held in trust	(308,504)	(6.0)	(10.7)
Total		\$ 2,039.5	\$ 2,034.4

The Company's share capital on May 5, 2018 compared to the same period in the last fiscal year is shown in the table below.

(Number of Shares)	52 Weeks Ended	
	May 5, 2018	May 6, 2017
Non-Voting Class A shares		
Issued and outstanding, beginning of year	173,537,901	173,537,901
Issued during year	9,690	–
Issued and outstanding, end of year	173,547,591	173,537,901
Shares held in trust, beginning of year	(555,409)	–
Purchased for future settlement of equity settled plans	(5,683)	(555,409)
Issued for future settlement of equity settled plans	252,588	–
Shares held in trust, end of year	(308,504)	(555,409)
Issued and outstanding, net of shares held in trust, end of year	173,239,087	172,982,492
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 5, 2018 were granted at prices between \$15.60 and \$30.87 and expire between June 2018 and June 2025 with a weighted average remaining contractual life of 5.20 years. Stock option transactions during fiscal 2018 and 2017 were as follows:

	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	4,949,863	\$ 24.27	3,655,322	\$ 25.94
Granted	1,338,980	19.43	1,642,700	20.40
Exercised	(122,805)	22.26	–	–
Expired	(749,971)	25.92	–	–
Forfeited	(729,912)	23.45	(348,159)	23.51
Balance, end of year	4,686,155	\$ 22.81	4,949,863	\$ 24.27
Stock options exercisable, end of year	2,301,032		2,110,743	

For the 52 weeks ended May 5, 2018, the Company paid common dividends of \$114.0 million (2017 – \$111.3 million) to its equity holders. This represents a payment of \$0.42 per share (2017 – \$0.41 per share) for common shareholders.

As at June 26, 2018, the Company had Non-Voting Class A and Class B common shares outstanding of 173,548,969 and 98,138,079, respectively. Options to acquire 4,686,155 Non-Voting Class A shares were outstanding as of May 5, 2018 (May 6, 2017 – 4,949,863) which represents 1.7% (May 6, 2017 – 1.8%) of the outstanding Non-Voting Class A and Class B common shares.

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 AST Trust Company (Canada) as trustee. The trust fund is an SE and as such the accounts of the trust fund are included on the consolidated financial statements of the Company. The following represents the activity of shares held in trust:

Shares held in trust	Number of Shares	May 5, 2018	May 6, 2017
Balance, beginning of year	(555,409)	\$ (10.7)	\$ –
Purchased	(5,683)	(0.1)	(10.7)
Issued	252,588	4.8	–
Balance, end of year	(308,504)	\$ (6.0)	\$ (10.7)

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 6, 2017 with the exception of the following:

Changes to Accounting Standards Adopted During Fiscal 2018

(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 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 on Note 15 of the Company's consolidated financial statements.

(ii) 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.

Future Standards

(i) Financial Instruments

In July 2014, the IASB issued IFRS 9, "Financial instruments" ("IFRS 9"), which replaces IAS 39, "Financial instruments: recognition and measurement" ("IAS 39") and related interpretations. IFRS 9 provides revised guidance on the classification and measurement of financial assets and financial liabilities, including impairment. IFRS 9 also introduces a new hedge accounting model and amendments to clarify the treatment of modifications of financial liabilities. 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 to be applied prospectively. Early adoption is permitted, however, the Company did not elect to do so. The standard will be applied in fiscal 2019, and the Company does not expect a significant adjustment to its consolidated financial statements as a result of the adoption of this standard, as outlined below.

Classification and Measurement

IFRS 9 requires financial assets to be classified and measured based on both the business model for managing the asset and the nature of the cash flows. The classification and measurement of financial liabilities remains largely unchanged from IAS 39. The application of the new classification requirements under IFRS 9 are not expected to result in a significant adjustment to the Company's consolidated financial statements.

Impairment

IFRS 9 introduces a new expected credit loss ("ECL") impairment model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. Under the IFRS 9 ECL model, the Company will recognize upfront impairment losses based on past events, current conditions, and reasonable and supportable forecasts affecting collectability. The application of the ECL model under IFRS 9 is not expected to result in a significant adjustment to the Company's consolidated financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS***Hedge Accounting***

IFRS 9 introduces a new hedge accounting model that aligns hedge accounting relationships with corresponding risk management activities. The new hedge accounting requirements are not expected to result in a significant adjustment to the Company's consolidated financial statements.

Modification of Financial Liabilities

In October 2017, the IASB issued "Prepayment features with negative compensation" as an amendment to IFRS 9. The amendment clarifies the accounting treatment for modifications of financial liabilities and requires a financial liability measured at amortized cost to be remeasured when a modification occurs. Any resulting gain or loss is required to be recognized in profit or loss at the date of modification. The amendment is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. The Company does not expect this amendment to result in a significant adjustment to the Company's consolidated financial statements.

Disclosure

Financial instrument disclosures continue to fall within the scope of IFRS 7 "Financial instruments: disclosures" ("IFRS 7"). IFRS 7 has been amended by IFRS 9 to include additional qualitative and quantitative disclosure requirements. The Company intends to apply these amendments in fiscal 2019. The amendments are not expected to result in a significant adjustment to the Company's consolidated financial statement disclosures.

(ii) Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from contracts with customers" ("IFRS 15"). IFRS 15 replaces IAS 18, "Revenue" ("IAS 18"), 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. Early adoption is permitted, however, the Company did not elect to do so.

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 provides some transition relief for modified and completed contracts. The implementation timelines for these clarifications are consistent with IFRS 15.

The Company expects to adopt IFRS 15 in fiscal 2019 on a full retrospective basis and does not expect the implementation to result in a significant adjustment to the Company's consolidated financial statements.

(iii) Leases

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17, "Leases" ("IAS 17") 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, but the Company does not intend to do so. For leases where the Company is the lessee, the IFRS 16 transition requirements provide the option of adopting a full retrospective approach or a modified retrospective approach with optional practical expedients available. The Company has performed preliminary modeling as part of its assessment of IFRS 16 transition approaches, and intends to adopt the standard on a modified retrospective basis. The Company continues to finalize its approach on the use of the optional practical expedients.

The Company expects that the adoption of IFRS 16 will have a material impact on its consolidated financial statements, given the current operating lease commitments held under IAS 17 as a lessee. New assets and liabilities will be recognized on the balance sheet for the Company's operating property and equipment leases. On the statement of earnings, the Company will replace the current straight-line lease expense recognized in operating expenses with depreciation for right-of-use assets and finance expense on lease liabilities. The presentation of lease related cash flows on the statement of cash flows will also change, with no change to the amount of cash exchanged as part of the underlying lease transaction.

The Company continues to evaluate the impact of this standard on its consolidated financial statements.

(iv) Investments in Associates and Joint Ventures

In October 2017, the IASB issued an amendment to IAS 28 "Investments in associates and joint ventures" to clarify that an entity must apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture where the equity method is not applied. The amendment is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the potential impact of this amendment.

(v) Annual Improvements 2015–2017

The IASB issued amendments to IFRS 3 “Business combinations”, IFRS 11 “Joint arrangements”, IAS 12 “Income taxes” and IAS 23 “Borrowing costs” in December 2017. These amendments are effective for annual periods beginning on or after January 1, 2019. The Company is assessing the potential impacts of these amendments.

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with generally accepted accounting principles (“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 consolidated 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

MANAGEMENT'S DISCUSSION & ANALYSIS

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 after 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 5, 2018 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 5, 2018 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 4, 2018 and ended May 5, 2018 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 \$199.7 million (2017 – \$195.8 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.

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. There was no gain or loss recognized on the redemption. During the year ended May 5, 2018, the Company received interest from Crombie REIT of \$0.2 million (2017 – \$1.2 million).

On April 6, 2018, Sobeys and its wholly-owned subsidiaries entered into an agreement with Crombie REIT to sell a portfolio of 1 properties, nine of which were leased back. Total cash proceeds to the Company and its wholly-owned subsidiaries from this transaction were \$88.1 million, resulting in a pre-tax gain of \$13.2 million.

On September 29, 2017, Sobeys sold a property to Crombie REIT for cash consideration of \$6.4 million. This resulted in a pre-tax gain of \$0.2 million.

On June 29, 2016, Sobeys and its wholly-owned subsidiaries entered into an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land 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 the Company \$93.4 million in value of Crombie Limited Partnership ("CLP") Class B units with attached Crombie REIT special voting units at a price of \$14.70 per unit. The subsidiary of the Company subsequently sold its CLP Class B units to Empire on a tax deferred basis. Total cash proceeds to the Company and its wholly-owned subsidiaries from these transactions with Crombie REIT and Empire 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, Sobeys 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.

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 5, 2018	May 6, 2017
Salaries, bonus and other short-term employment benefits	\$ 13.3	\$ 9.7
Post-employment benefits	1.5	1.6
Termination benefits	0.8	8.7
Share-based payments	9.8	14.8
	\$ 25.4	\$ 34.8

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.

MANAGEMENT'S DISCUSSION & ANALYSIS

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

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.

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 labour strife, negative publicity and business disruption.

There is the risk that the Company will not realize the \$500.0 million in annualized savings by the completion of the three year reorganization in 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.

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.

Drug Regulation, Legislation and Healthcare Reform

The Company currently operates 352 in-store pharmacies and 74 freestanding pharmacies which are subject to federal, provincial, territorial and local legislation as well as regulations governing the sale of prescription drugs. Changes or failure to comply with these laws and regulations could have a negative impact on operations, financial performance and reputation. These laws and regulations typically regulate prescription drug coverage for public plans including patient and product eligibility as well as elements of drug pricing and reimbursements including product cost, markup, dispensing fee, distribution allowances and in some provinces the ability to negotiate manufacturers allowances. In some provinces, legislation requires the selling price for prescription drugs to third-party insurance plans and cash customers will not be higher than the price established for the provincial drug plan. In addition to reimbursement, these laws and regulations govern drug approval and distribution, allowable packaging and labeling, marketing, handling, storage and disposal.

In fiscal 2018, provincial governments and private plans continued to implement measures to manage the cost of their drug plans, the impact of which varied by province and by plan. The most significant of these measures implemented April 1, 2018 was the significant price reduction of almost 70 high volume generic drugs which was the result of an agreement between the pan-Canadian Pharmaceutical Alliance and the Canadian Generic Pharmaceutical Association on behalf of the federal, provincial and territorial drug plans. The Council of the Federation, a joint collaboration created by the provincial premiers continues to work on cost reduction initiatives within the pharmaceutical sector. In the fall of 2017, actions by the Alberta College of Pharmacy resulted in a ban on the ability of pharmacies to offer inducements on prescription drugs.

It is anticipated that healthcare reform and regulation will continue to put pressure on pharmacy reimbursement through changes to patient and drug eligibility, prescription drug pricing including cost, dispensing fee, allowable markup, manufacturer allowance funding, distribution as well as potential restriction around customer inducements. The Company has and will continue to identify opportunities to mitigate the negative impact these changes have on financial performance.

Free Trade

The Company is susceptible to risks associated with trade relationships between Canada and other countries including the United States. Changes to trade agreements and tariffs between Canada and other countries could increase the costs of certain products and some items could become unavailable thereby having a negative impact on customer experience. While the Company can mitigate these risks to a certain extent through the use of alternative suppliers, international trade by its nature can be unpredictable and the Company may not be able to fully mitigate the negative impact of changes in trade agreements and tariffs.

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.

MANAGEMENT'S DISCUSSION & ANALYSIS***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 agreements 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.

MANAGEMENT'S DISCUSSION & ANALYSIS***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 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 4.1 percent of Sobeys' total annual purchases. 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.

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 16 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.

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 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 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.
- Adjusted operating income is operating income 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 operating income is reconciled to operating income in its respective subsection of the "Summary Results – Fourth Quarter" and "Operating Results – Full Year" sections. Adjusted operating income for the Food Retailing Segment is reconciled to operating income in the "Food Segment Reconciliations" section of this MD&A.
- 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:

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Net earnings	\$ 73.5	\$ 32.3	\$ 179.8	\$ 172.5
Income tax expense	11.7	1.4	56.2	42.5
Finance costs, net	25.4	27.7	110.5	118.0
Operating income	110.6	61.4	346.5	333.0
Depreciation	85.6	88.6	351.8	355.5
Amortization of intangibles	21.6	21.7	87.4	88.7
EBITDA	\$ 217.8	\$ 171.7	\$ 785.7	\$ 777.2

- 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 – Fourth Quarter" and "Operating Results – Full Year" sections. Adjusted EBITDA for the Food Retailing Segment is reconciled to EBITDA in the "Food Segment Reconciliations" section 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 losses. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting total finance income.

MANAGEMENT'S DISCUSSION & ANALYSIS

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

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Finance costs, net	\$ 25.4	\$ 27.7	\$ 110.5	\$ 118.0
Plus: finance income	2.3	1.0	6.0	6.1
Less: net pension finance costs	(3.2)	(2.9)	(11.9)	(11.5)
Less: accretion expense on provisions	(2.9)	(0.3)	(7.7)	(9.5)
Interest expense	\$ 21.6	\$ 25.5	\$ 96.9	\$ 103.1

- 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 is reconciled to net earnings in its respective subsection of the "Summary Results – Fourth Quarter" and "Operating Results – Full Year" sections. Adjusted net earnings for the Food Retailing Segment is reconciled to net earnings in the "Food Segment Reconciliations" section of this MD&A.
- Adjusted EPS (fully diluted) is calculated as adjusted net earnings divided by diluted weighted average number of shares outstanding.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less property, equipment and investment property purchases. 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 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 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 May 5, 2018, May 6, 2017 and May 7, 2016, respectively:

(\$ in millions)	May 5, 2018	May 6, 2017	May 7, 2016 ⁽¹⁾⁽²⁾
Long-term debt due within one year	\$ 527.4	\$ 134.0	\$ 350.4
Long-term debt	1,139.5	1,736.8	2,017.0
Funded debt	1,666.9	1,870.8	2,367.4
Less: cash and cash equivalents	(627.9)	(207.3)	(264.7)
Net funded debt	1,039.0	1,663.5	2,102.7
Total shareholders' equity, net of non-controlling interest	3,702.8	3,644.2	3,623.9
Net total capital	\$ 4,741.8	\$ 5,307.7	\$ 5,726.6

(\$ in millions)	May 5, 2018	May 6, 2017	May 7, 2016 ⁽¹⁾⁽²⁾
Funded debt	\$ 1,666.9	\$ 1,870.8	\$ 2,367.4
Total shareholders' equity, net of non-controlling interest	3,702.8	3,644.2	3,623.9
Total capital	\$ 5,369.7	\$ 5,515.0	\$ 5,991.3

(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 the fiscal 2017 annual MD&A for further detail.

Food Segment Reconciliations

The following tables adjust Sobeys' contributed operating income, EBITDA, and net earnings, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance:

(\$ in millions)	52 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Operating income	\$ 273.6	\$ 259.3	\$ 14.3
Adjustments:			
Costs related to Project Sunrise	207.8	15.8	
Intangible amortization associated with the Canada Safeway acquisition	26.2	25.8	
West business unit store closures	21.2	–	
Distribution centre restructuring	–	9.6	
Gain on disposal of manufacturing facilities	–	(7.5)	
Historical organizational realignment costs	–	3.4	
Network rationalization reversals	–	(1.6)	
	255.2	45.5	209.7
Adjusted operating income	\$ 528.8	\$ 304.8	\$ 224.0

(\$ in millions)	52 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
EBITDA	\$ 712.5	\$ 703.2	\$ 9.3
Adjustments:			
Costs related to Project Sunrise	207.8	15.8	
West business unit store closures	21.2	–	
Distribution centre restructuring	–	9.6	
Gain on disposal of manufacturing facilities	–	(7.5)	
Historical organizational realignment costs	–	3.4	
Network rationalization reversals	–	(1.6)	
	229.0	19.7	209.3
Adjusted EBITDA	\$ 941.5	\$ 722.9	\$ 218.6

(\$ in millions)	52 Weeks Ended		\$ Change
	May 5, 2018	May 6, 2017	
Net earnings	\$ 116.5	\$ 112.7	\$ 3.8
Adjustments:			
Costs related to Project Sunrise	150.1	11.3	
Intangible amortization associated with the Canada Safeway acquisition	19.2	18.8	
West business unit store closures	15.5	–	
Distribution centre restructuring	–	6.9	
Gain on disposal of manufacturing facilities	–	(5.5)	
Historical organizational realignment costs	–	2.5	
Network rationalization reversals	–	(1.2)	
	184.8	32.8	152.0
Adjusted net earnings	\$ 301.3	\$ 145.5	\$ 155.8

MANAGEMENT'S DISCUSSION & ANALYSIS

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.
- Adjusted interest coverage is calculated as adjusted 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 5, 2018, May 6, 2017 and May 7, 2016:

(\$ in millions, except per share information)	May 5, 2018	May 6, 2017	May 7, 2016 ⁽¹⁾
Shareholders' equity, net of minority interest	\$ 3,702.8	\$ 3,644.2	\$ 3,623.9
Shares outstanding (basic)	271.8	271.9	273.9
Book value per common share	\$ 13.62	\$ 13.40	\$ 13.23

(1) Amounts have been restated. See "Changes to Accounting Policies Adopted During Fiscal 2017" section of the fiscal 2017 annual 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 27, 2018.
Stellarton, Nova Scotia, Canada