EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 AND 26 WEEKS ENDED NOVEMBER 2, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 13 and 26 weeks ended November 2, 2013 compared to the 13 and 26 weeks ended November 3, 2012. This MD&A should be read in conjunction with the Company's unaudited, interim condensed consolidated financial statements and the accompanying notes for the 13 and 26 weeks ended November 2, 2013, the audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 4, 2013, and the related annual MD&A. Additional information about the Company, including the 2013 Annual Information Form, the 2013 audited annual consolidated financial statements and the 2013 annual MD&A can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The unaudited, interim condensed consolidated financial statements and the accompanying notes are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars. These condensed consolidated financial statements include the accounts of Empire, its subsidiaries and Structured Entities ("SEs"), which the Company is required to consolidate.

The information contained in this MD&A is current to December 12, 2013, unless otherwise noted. There have been no material changes to disclosures as contained in the "Outlook", "Guarantees and Commitments", "Critical Accounting Estimates", "Contingencies" or "Risk Management" sections of the Company's MD&A for the 52 weeks ended May 4, 2013 other than as noted in this MD&A.

FORWARD-LOOKING INFORMATION

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

These forward-looking statements include the following items:

- Anticipated benefits from the Canada Safeway ULC ("Canada Safeway") acquisition such as growth prospects, benefits from economies of scale, future business strategy, and expectations regarding operations and strategic fit which may be impacted by the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns and the anticipated retention of Canada Safeway's operational employees;
- The Company's expectation that its operational and capital structure is sufficient to meet its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;

- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- The Company's expectation that ongoing litigation matters and claims arising from the ordinary course of business will have no material impact on the Company;
- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved;
- Sobeys Inc.'s ("Sobeys") expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives; and
- Sobeys' expectations regarding the reduction in business costs related to the opening of the new distribution centre in Québec, which could be impacted by the number of positions eliminated at other distribution centres.

These statements are based on management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives, and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflects management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of the annual MD&A for the 52 weeks ended May 4, 2013 and the Risk Factors section of the Short Form Prospectus filed July 24, 2013.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information, and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs, or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as at December 12, 2013 and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

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

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

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 (1)	**Nov. 2, 2013**	Nov. 3, 2012 (1)
Operating income	**$ 106.4**	$ 138.2	**$ 240.3**	$ 313.2
Depreciation (2)	**78.3**	74.7	**154.1**	150.6
Amortization of intangibles (2)	**12.1**	10.3	**24.6**	20.1
EBITDA	**$ 196.8**	$ 223.2	**$ 419.0**	$ 483.9

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 12 of the Company's second quarter unaudited condensed consolidated financial statements.
(2) Depreciation and amortization of intangibles from Empire Theatres have been recorded in discontinued operations.

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income.
- Adjusted net earnings from continuing operations is net earnings from continuing operations excluding items which are considered not indicative of underlying business operating performance.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt.
- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.
- Funded debt to EBITDA ratio is funded debt divided by trailing four-quarter EBITDA.
- EBITDA to interest expense ratio is trailing four-quarter EBITDA divided by trailing four-quarter interest expense.
- Funded debt to total capital ratio is funded debt divided by total capital.

- Net funded debt to net total capital ratio is net funded debt divided by net total capital.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.
- Current assets to current liabilities ratio is current assets divided by current liabilities.
- 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.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures reported on the balance sheets as at November 2, 2013, May 4, 2013 and November 3, 2012, respectively:

($ in millions)	**Nov. 2, 2013**	May 4, 2013	Nov. 3, 2012
Bank indebtedness	**$ -**	$ 6.0	$ 34.3
Long-term debt due within one year	**50.1**	47.6	46.5
Long-term debt	**1,090.4**	915.9	893.3
Funded debt	**1,140.5**	969.5	974.1
Less: cash and cash equivalents	**792.5**	455.2	389.9
Net funded debt	**348.0**	514.3	584.2
Total shareholders' equity, net of non-controlling interest	**3,957.7**	3,724.8	3,553.0
Net total capital	**$ 4,305.7**	$ 4,239.1	$ 4,137.2

($ in millions)	**Nov. 2, 2013**	May 4, 2013	Nov. 3, 2012
Funded debt	**$ 1,140.5**	$ 969.5	$ 974.1
Total shareholders' equity, net of non-controlling interest	**3,957.7**	3,724.8	3,553.0
Total capital	**$ 5,098.2**	$ 4,694.3	$ 4,527.1

OVERVIEW OF THE BUSINESS

Empire's key businesses include food retailing and related real estate. The Company's financial results are segmented into two separate operating segments: (1) Food Retailing and (2) Investments and Other Operations.

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which as of November 2, 2013, conducted business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

Empire's investments and other operations segment, which as of November 2, 2013 included:

1. A 42.1 percent (40.8 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust investing in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties. Crombie REIT currently owns a portfolio of 250 retail and office properties across Canada, comprising approximately 17.6 million square feet of gross leasable area; and

2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P. and GDC Investments 6, L.P., a 45.8 percent equity accounted interest in GDC Investments 7, L.P., a 43.7 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States.

With over $17 billion in annual sales and approximately $10.3 billion in assets, Empire and its subsidiaries, including franchisees and affiliates, employ more than 124,000 people.

DISCONTINUED OPERATIONS

On November 1, 2013, the Company announced that Empire Theatres completed the sale of 46 theatres with 397 screens in separate transactions with Cineplex Inc. and Landmark Cinemas as previously announced on June 27, 2013. As a result of the sale, financial results related to Empire Theatres, as previously reported in the investments and other operations segment, have been included in discontinued operations in the condensed consolidated statements of earnings for the 13 and 26 weeks ended November 2, 2013 and November 3, 2012. Discontinued operations are discussed and referenced throughout this MD&A.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 13 and 26 weeks ended November 2, 2013 relative to the 13 and 26 weeks ended November 3, 2012:

	13 Weeks Ended				26 Weeks Ended			
	Nov. 2, 2013		Nov. 3, 2012 [1]		**Nov. 2, 2013**		Nov. 3, 2012 [1]	
($ in millions, except per share amounts)		**% of Sales**		% of Sales		**% of Sales**		% of Sales
Sales	**$ 4,428.5**	**100.00%**	$ 4,348.8	100.00%	**$ 9,037.9**	**100.00%**	$ 8,857.9	100.00%
Adjusted EBITDA [2][3]	**214.8**	**4.85%**	213.2	4.90%	**447.2**	**4.95%**	466.4	5.27%
EBITDA [2]	**196.8**	**4.44%**	223.2	5.13%	**419.0**	**4.64%**	483.9	5.46%
Adjusted operating income [2][3]	**124.4**	**2.81%**	128.2	2.95%	**268.5**	**2.97%**	295.7	3.34%
Operating income [2]	**106.4**	**2.40%**	138.2	3.18%	**240.3**	**2.66%**	313.2	3.54%
Adjusted net earnings from continuing operations [2][3][4]	**78.1**	**1.76%**	82.7	1.90%	**167.8**	**1.86%**	185.3	2.09%
Net earnings from continuing operations [4]	**60.5**	**1.37%**	90.3	2.08%	**143.1**	**1.58%**	198.4	2.24%
Net earnings from discontinued operations	**108.7**	**2.45%**	1.6	0.04%	**91.1**	**1.01%**	1.1	0.01%
Net earnings [4]	**169.2**	**3.82%**	91.9	2.11%	**234.2**	**2.59%**	199.5	2.25%
Basic earnings per share [5]								
Adjusted net earnings from continuing operations [2][3][4]	**$ 1.15**		$ 1.22		**$ 2.47**		$ 2.73	
Net earnings from continuing operations [4]	**$ 0.89**		$ 1.33		**$ 2.11**		$ 2.92	
Net earnings from discontinued operations	**$ 1.60**		$ 0.02		**$ 1.34**		$ 0.02	
Net earnings [4]	**$ 2.49**		$ 1.35		**$ 3.45**		$ 2.94	
Basic weighted average number of shares outstanding (in millions) [5]	**68.0**		67.9		**68.0**		67.9	
Diluted earnings per share [5]								
Adjusted net earnings from continuing operations [2][3][4]	**$ 1.15**		$ 1.21		**$ 2.46**		$ 2.72	
Net earnings from continuing operations [4]	**$ 0.89**		$ 1.33		**$ 2.10**		$ 2.91	
Net earnings from discontinued operations	**$ 1.59**		$ 0.02		**$ 1.34**		$ 0.02	
Net earnings [4]	**$ 2.48**		$ 1.35		**$ 3.44**		$ 2.93	
Diluted weighted average number of shares outstanding (in millions) [5]	**68.2**		68.1		**68.1**		68.1	
Dividend per share	**$ 0.26**		$ 0.24		**$ 0.52**		$ 0.48	

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 12 of the Company's second quarter unaudited condensed consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Excludes items which are considered not indicative of underlying business operating performance.
(4) Net of non-controlling interest.
(5) Share count and earnings per share figures do not include July 31, 2013 issuance of subscription receipts.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 13 and 26 weeks ended November 2, 2013 compared to the 13 and 26 weeks ended November 3, 2012.

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

Sales

Consolidated sales for the second quarter were $4.43 billion compared to $4.35 billion for the same quarter last year, an increase of $79.7 million or 1.8 percent. During this period, sales from the food retailing segment increased $85.4 million or 2.0 percent.

For the first half of fiscal 2014, consolidated sales were $9.04 billion compared to $8.86 billion in the first half of fiscal 2013, an increase of $180.0 million or 2.0 percent. The increase in sales is largely driven by a $184.3 million or 2.1 percent growth in sales from the food retailing segment.

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

	13 Weeks Ended				26 Weeks Ended			
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012	($) Change	(%) Change	**Nov. 2, 2013**	Nov. 3, 2012	($) Change	(%) Change
Food retailing segment								
Sobeys' reported sales	**$ 4,416.8**	$ 4,330.4	$ 86.4	2.0%	**$ 9,011.7**	$ 8,827.1	$ 184.6	2.1%
Reclassification of lease revenue from owned property recorded by Sobeys	**14.2**	15.0			**28.3**	28.3		
	4,431.0	4,345.4	85.6	2.0%	**9,040.0**	8,855.4	184.6	2.1%
Elimination of sales to discontinued operations	**(3.3)**	(3.1)			**(6.3)**	(6.0)		
Empire's food retailing segmented sales	**4,427.7**	4,342.3	85.4	2.0%	**9,033.7**	8,849.4	184.3	2.1%
Investments and other operations segmented sales (1)	**0.8**	6.5	(5.7)	(87.7)%	**4.2**	8.5	(4.3)	(50.6)%
Empire consolidated sales	**$ 4,428.5**	$ 4,348.8	$ 79.7	1.8%	**$ 9,037.9**	$ 8,857.9	$ 180.0	2.0%

(1) Sales generated from Empire Theatres have been recorded in discontinued operations.

During the second quarter, Sobeys reported sales of $4.42 billion, an increase of $86.4 million or 2.0 percent from the $4.33 billion reported in the second quarter of fiscal 2013. The growth in Sobeys' reported sales in the second quarter of fiscal 2014 was a result of Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives. Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) increased 0.2 percent from the prior year.

Empire's investments and other operations recorded sales of $0.8 million in the second quarter of fiscal 2014 compared to $6.5 million last year, a decrease of $5.7 million. Sales generated from Empire Theatres have been recorded in discontinued operations. Up to the date of closing of the Empire Theatres sale of assets on November 1, 2013, sales generated from discontinued operations were $71.9 million in the second quarter of fiscal 2014 compared to $55.3 million last year, an increase of $16.6 million.

For the first half of fiscal 2014, Sobeys reported sales of $9.01 billion, an increase of $184.6 million or 2.1 percent from the $8.83 billion reported last year. Sobeys' same-store sales increased 0.1 percent in the first half of fiscal 2014 compared to the same period last year. Empire's investments and other operations recorded sales of $4.2 million in the first half of fiscal 2014 compared to $8.5 million last year, a decrease of $4.3 million. Up to the date of closing of the Empire Theatres sale of assets on November 1, 2013, sales generated from discontinued operations were $126.9 million in the first half of fiscal 2014 compared to $103.9 million last year, an increase of $23.0 million.

Please refer to the section of this MD&A entitled "Financial Performance by Segment" for an explanation of the change in sales by segment.

EBITDA

Consolidated EBITDA for the 13 weeks ended November 2, 2013 decreased $26.4 million or 11.8 percent to $196.8 million from $223.2 million in the second quarter last year. This decrease primarily relates to a decrease in gross margin combined with increased selling and administrative expenses, which were largely the result of transaction costs of $16.8 million associated with the Canada Safeway acquisition and organizational realignment and restructuring costs of $8.4 million. EBITDA margin decreased to 4.44 percent in the second quarter of fiscal 2014 from 5.13 percent in the prior year. After adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for the second quarter of fiscal 2014 was $214.8 million compared to $213.2 million last year, an increase of $1.6 million or 0.8 percent. Adjusted EBITDA margin was 4.85 percent in the second quarter of fiscal 2014 compared to 4.90 percent last year.

For the first half of fiscal 2014, consolidated EBITDA decreased $64.9 million or 13.4 percent to $419.0 million from $483.9 million in the same period last year. This decrease primarily relates to a decrease in gross margin, which reflects a highly promotional retail grocery environment, combined with increased selling and administrative expenses, which were largely the result of transaction costs of $26.9 million associated with the Canada Safeway acquisition and an increase in organizational realignment and restructuring costs of $4.6 million. Also impacting EBITDA were a decrease in gains on the disposal of assets of $9.1 million and a reduction in dilution gains of $7.7 million. EBITDA margin decreased to 4.64 percent in the first half of fiscal 2014 from 5.46 percent in the same period last year. After adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for the first half of fiscal 2014 was $447.2 million compared to $466.4 million last year, a decrease of $19.2 million or 4.1 percent. Adjusted EBITDA margin was 4.95 percent in the first half of fiscal 2014 compared to 5.27 percent last year.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 (1)	**Nov. 2, 2013**	Nov. 3, 2012 (1)
EBITDA (2)(3) (consolidated)	**$ 196.8**	$ 223.2	**$ 419.0**	$ 483.9
Adjustments:				
Transaction costs associated with the Canada Safeway acquisition	**16.8**	-	**26.9**	-
Organizational realignment and restructuring costs	**8.4**	0.9	**8.4**	3.8
Gain on disposal of assets	**(2.8)**	(10.4)	**(2.7)**	(11.8)
Dilution gains	**(4.4)**	-	**(4.4)**	(12.1)
Québec distribution network restructuring	**-**	(0.5)	**-**	2.6
	18.0	(10.0)	**28.2**	(17.5)
Adjusted EBITDA (2) (consolidated)	**$ 214.8**	$ 213.2	**$ 447.2**	$ 466.4

(1) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 12 of the Company's second quarter unaudited condensed consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) EBITDA generated from Empire Theatres has been recorded in discontinued operations.

Please refer to the section of this MD&A entitled "Financial Performance by Segment" for an explanation of the change in EBITDA for each segment.

Operating Income

For the 13 weeks ended November 2, 2013, Empire recorded operating income of $106.4 million, a decrease of $31.8 million from the $138.2 million recorded for the 13 weeks ended November 3, 2012.

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

- Sobeys' operating income contribution to Empire in the 13 weeks ended November 2, 2013 totalled $99.8 million, a decrease of $27.7 million from the $127.5 million recorded in the same quarter last year.
- Investments and other operations contributed operating income of $6.6 million in the 13 weeks ended November 2, 2013 compared to $10.7 million in the 13 weeks ended November 3, 2012, a decrease of $4.1 million.
  - Equity accounted earnings generated by Crombie REIT during the second quarter were $5.4 million compared to $4.2 million in the prior year, an increase of $1.2 million.
  - Real estate partnerships (Genstar) contributed operating income of $8.0 million, an increase of $3.4 million from the $4.6 million recorded in the same quarter of the prior year.
  - Other operations (net of corporate expenses) contributed operating income of $(6.8) million compared to $1.9 million last year, a decrease of $8.7 million. The 13 weeks ended November 2, 2013 included organizational realignment and restructuring costs of $8.4 million and dilution gains of $4.1 million, respectively (13 weeks ended November 3, 2012 - $nil and $nil).

After adjusting for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, adjusted operating income in the 13 weeks ended November 2, 2013 was $124.4 million compared to $128.2 million in the second quarter last year, a decrease of $3.8 million or 3.0 percent. As mentioned, this decrease is the result of an increase to the already strong competitive environment.

For the 26 weeks ended November 2, 2013, operating income equalled $240.3 million, a decrease of $72.9 million from the $313.2 million reported last year. Operating income contributed by Sobeys in the first half of fiscal 2014 was $226.8 million, a decrease of $56.7 million from the $283.5 million reported in the same period last year. Investments and other operations' operating income in the first half of fiscal 2014 decreased $16.2 million to $13.5 million from $29.7 million last year. Included in investments and other operations' operating income in the first half of fiscal 2014 were organizational realignment and restructuring costs of $8.4 million and dilution gains of $4.1 million, respectively (26 weeks ended November 3, 2012 - $nil and $11.4 million).

After adjusting for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, adjusted operating income in the first half of fiscal 2014 was $268.5 million compared to $295.7 million last year, a decrease of $27.2 million or 9.2 percent.

Please refer to the section of this MD&A entitled "Financial Performance by Segment" for an explanation of the change in operating income for each segment.

Finance Costs

Finance costs, net of finance income, for the 13 weeks ended November 2, 2013 were $21.1 million, an increase of $7.8 million from the $13.3 million recorded in the same period last year. The increase is primarily a result of higher interest expense of $16.2 million, mainly as a result of increased debt capacity made available to the Company for financing the Canada Safeway acquisition, which closed on November 4, 2013, subsequent to the end of the quarter. Partially offsetting the higher finance costs was an increase in total finance income of $7.7 million primarily associated with increased interest income earned from the investment of subscription receipts and Sobeys' unsecured notes proceeds.

Finance costs, net of finance income, for the 26 weeks ended November 2, 2013 were $35.9 million, an increase of $6.6 million from the $29.3 million recorded last year. The increase primarily relates to higher interest expense of $14.8 million, largely as a result of increased debt capacity made available to the Company for financing the Canada Safeway acquisition, as mentioned, partially offset by an increase in total finance income of $7.4 million. This increase in total finance income was primarily a result of higher interest income earned from the investment of subscription receipts and Sobeys' unsecured notes proceeds. Trailing four-quarter EBITDA to interest expense decreased to 12.9 times at the end of the second quarter of fiscal 2014 from 16.5 times at the end of the second quarter last year.

Please refer to the "Liabilities" sub-section under the "Consolidated Financial Condition" section of this MD&A for further details on consolidated funded debt.

Income Taxes

The Company's effective income tax rate on continuing operations for the second quarter of fiscal 2014 was 26.3 percent, consistent with the second quarter last year. The effective income tax rate on continuing operations for the first half of fiscal 2014 was 25.3 percent versus 26.9 percent in the first half of last year. The decrease in the effective income tax rate is primarily due to the timing of the realization of tax benefits compared to the same period in the prior year.

Adjusted Net Earnings from Continuing Operations

The table below adjusts reported net earnings from continuing operations, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance. Net earnings from continuing operations for the 13 and 26 weeks ended November 2, 2013 included $17.9 million and $25.0 million, net of tax, respectively, relating to transaction and finance costs associated with the Canada Safeway acquisition (13 and 26 weeks ended November 3, 2012 - $nil and $nil).

($ in millions, except per share amounts, net of tax)	13 Weeks Ended		26 Weeks Ended	
	Nov. 2, 2013	Nov. 3, 2012 [1]	**Nov. 2, 2013**	Nov. 3, 2012 [1]
Net earnings from continuing operations by segment [2]:				
Food retailing	**$ 56.3**	$ 83.4	**$ 135.5**	$ 179.1
Investments and other operations	**4.2**	6.9	**7.6**	19.3
Net earnings from continuing operations [2]	**$ 60.5**	$ 90.3	**$ 143.1**	$ 198.4
EPS from continuing operations (fully diluted)	**$ 0.89**	$ 1.33	**$ 2.10**	$ 2.91
Adjustments [3]:				
Transaction costs associated with the Canada Safeway acquisition	**12.0**	-	**19.1**	-
Finance costs associated with the Canada Safeway acquisition	**5.9**	-	**5.9**	-
Organizational realignment and restructuring costs	**5.1**	0.7	**5.1**	2.8
Gain on disposal of assets	**(2.3)**	(7.9)	**(2.3)**	(9.2)
Dilution gains	**(3.1)**	-	**(3.1)**	(8.6)
Québec distribution network restructuring	**-**	(0.4)	**-**	1.9
	17.6	(7.6)	**24.7**	(13.1)
Adjusted net earnings from continuing operations [2][4]	**$ 78.1**	$ 82.7	**$ 167.8**	$ 185.3
Adjusted net earnings from continuing operations by segment [2]:				
Food retailing	**$ 71.7**	$ 75.8	**$ 158.6**	$ 174.1
Investments and other operations	**6.4**	6.9	**9.2**	11.2
Adjusted net earnings from continuing operations [2][4]	**$ 78.1**	$ 82.7	**$ 167.8**	$ 185.3
Adjusted EPS from continuing operations (fully diluted)	**$ 1.15**	$ 1.21	**$ 2.46**	$ 2.72

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.
(2) Net of non-controlling interest.
(3) All adjustments are net of income taxes.
(4) See "Non-GAAP Financial Measures" section of this MD&A.

For the 13 weeks ended November 2, 2013, after factoring in the impact of the above-noted items, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest, of $78.1 million ($1.15 per diluted share) compared to $82.7 million ($1.21 per diluted share) in the second quarter last year. For the first half of fiscal 2014, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest, of $167.8 million ($2.46 per diluted share) compared to $185.3 million ($2.72 per diluted share) in the comparable period last year.

Net Earnings from Continuing Operations

Consolidated net earnings from continuing operations, net of non-controlling interest, in the second quarter equalled $60.5 million ($0.89 per diluted share) compared to $90.3 million ($1.33 per diluted share) in the second quarter last year. The decrease of $29.8 million is due to lower operating income and higher finance costs, net of finance income, partially offset by lower income taxes.

For the first half of fiscal 2014, consolidated net earnings from continuing operations, net of non-controlling interest, equalled $143.1 million ($2.10 per diluted share) compared to $198.4 million ($2.91 per diluted share) last year. The decrease of $55.3 million is due to lower operating income and higher finance costs, net of finance income, partially offset by lower income taxes, as mentioned.

The following table presents Empire's segmented net earnings from continuing operations, net of non-controlling interest, for the 13 and 26 weeks ended November 2, 2013 compared to the 13 and 26 weeks ended November 3, 2012:

($ in millions, except per share amounts, net of tax)	13 Weeks Ended		($)	26 Weeks Ended		($)
	Nov. 2, 2013	Nov. 3, 2012 (1)	Change	**Nov. 2, 2013**	Nov. 3, 2012 (1)	Change
Food retailing	**$ 56.3**	$ 83.4	$ (27.1)	**$ 135.5**	$ 179.1	$ (43.6)
Investments and other operations	**4.2**	6.9	(2.7)	**7.6**	19.3	(11.7)
Consolidated	**$ 60.5**	$ 90.3	$ (29.8)	**$ 143.1**	$ 198.4	$ (55.3)
EPS from continuing operations (fully diluted)	**$ 0.89**	$ 1.33	$ (0.44)	**$ 2.10**	$ 2.91	$ (0.81)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.

Net Earnings

Consolidated net earnings, net of non-controlling interest, in the second quarter equalled $169.2 million ($2.48 per diluted share) compared to $91.9 million ($1.35 per diluted share) in the second quarter last year. The increase of $77.3 million is due primarily to the $105.3 million gain, net of tax, on the sale of Empire Theatres' assets recorded in the second quarter of fiscal 2014 in discontinued operations, partially offset by a decrease in net earnings from continuing operations, net of non-controlling interest, of $29.8 million.

Net earnings from discontinued operations in the second quarter of fiscal 2014 equalled $108.7 million ($1.59 per diluted share) compared to $1.6 million ($0.02 per diluted share) in the prior year, an increase of $107.1 million, primarily as a result of the gain, net of tax, on the sale of Empire Theatres' assets of $105.3 million, as mentioned.

Consolidated net earnings, net of non-controlling interest, in the 26 weeks ended November 2, 2013 equalled $234.2 million ($3.44 per diluted share) compared to $199.5 million ($2.93 per diluted share) in the same period last year. The increase of $34.7 million is due to an increase in net earnings from discontinued operations of $90.0 million, partially offset by a decrease in net earnings from continuing operations, net of non-controlling interest, of $55.3 million. Included in net earnings from discontinued operations in the first half of fiscal 2014 was the gain, net of tax, on the sale of Empire Theatres' assets of $105.3 million, as discussed.

The following table reconciles Empire's segmented net earnings from continuing operations, net of non-controlling interest, to net earnings, net of non-controlling interest, for the 13 and 26 weeks ended November 2, 2013 compared to the 13 and 26 weeks ended November 3, 2012:

($ in millions, except per share amounts, net of tax)	13 Weeks Ended Nov. 2, 2013	13 Weeks Ended Nov. 3, 2012 [1]	($) Change	26 Weeks Ended Nov. 2, 2013	26 Weeks Ended Nov. 3, 2012 [1]	($) Change
Net earnings from continuing operations by segment [2]:						
Food retailing	**$ 56.3**	$ 83.4	$ (27.1)	**$ 135.5**	$ 179.1	$ (43.6)
Investments and other operations	**4.2**	6.9	(2.7)	**7.6**	19.3	(11.7)
Net earnings from continuing operations [2]	**$ 60.5**	$ 90.3	$ (29.8)	**$ 143.1**	$ 198.4	$ (55.3)
EPS from continuing operations (fully diluted)	**$ 0.89**	$ 1.33	$ (0.44)	**$ 2.10**	$ 2.91	$ (0.81)
Net earnings from discontinued operations	**108.7**	1.6	107.1	**91.1**	1.1	90.0
Net earnings by segment [2]:						
Food retailing	**$ 56.3**	$ 83.4	$ (27.1)	**$ 135.5**	$ 179.1	$ (43.6)
Investments and other operations	**112.9**	8.5	104.4	**98.7**	20.4	78.3
Net earnings [2]	**$ 169.2**	$ 91.9	$ 77.3	**$ 234.2**	$ 199.5	$ 34.7
EPS (fully diluted)	**$ 2.48**	$ 1.35	$ 1.13	**$ 3.44**	$ 2.93	$ 0.51

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.

(2) Net of non-controlling interest.

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

QUARTERLY RESULTS OF OPERATIONS

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

($ in millions, except per share amounts)	**Fiscal 2014**		Fiscal 2013 (1)				Fiscal 2012	
	Q2 (13 Weeks) Nov. 2, 2013	Q1 (13 Weeks) Aug. 3, 2013	Q4 (13 Weeks) May 4, 2013	Q3 (13 Weeks) Feb. 2, 2013	Q2 (13 Weeks) Nov. 3, 2012	Q1 (13 Weeks) Aug. 4, 2012	Q4 (13 Weeks) May 5, 2012	Q3 (13 Weeks) Feb. 4, 2012
Sales	**$ 4,428.5**	$ 4,609.4	$ 4,257.3	$ 4,285.6	$ 4,348.8	$ 4,509.1	$ 4,073.8	$ 3,984.8
Operating income (2)	**106.4**	133.9	150.4	109.6	138.2	175.0	135.5	123.2
Net earnings from continuing operations (3)	**60.5**	82.6	102.7	71.2	90.3	108.1	91.4	80.0
Net earnings (loss) from discontinued operations	**108.7**	(17.6)	3.4	2.7	1.6	(0.5)	-	-
Net earnings (3)	**$ 169.2**	$ 65.0	$ 106.1	$ 73.9	$ 91.9	$ 107.6	$ 91.4	$ 80.0
Per share information, basic								
Net earnings from continuing operations (3)	**$ 0.89**	$ 1.22	$ 1.51	$ 1.05	$ 1.33	$ 1.59	$ 1.35	$ 1.18
Net earnings (loss) from discontinued operations	**1.60**	(0.26)	0.05	0.04	0.02	(0.01)	-	-
Net earnings (3)	**$ 2.49**	$ 0.96	$ 1.56	$ 1.09	$ 1.35	$ 1.58	$ 1.35	$ 1.18
Basic weighted average number of shares outstanding (in millions)	**68.0**	67.9	67.9	67.9	67.9	67.9	67.9	67.9
Per share information, diluted								
Net earnings from continuing operations (3)	**$ 0.89**	$ 1.21	$ 1.51	$ 1.05	$ 1.33	$ 1.59	$ 1.34	$ 1.17
Net earnings (loss) from discontinued operations	**1.59**	(0.26)	0.05	0.04	0.02	(0.01)	-	-
Net earnings (3)	**$ 2.48**	$ 0.95	$ 1.56	$ 1.09	$ 1.35	$ 1.58	$ 1.34	$ 1.17
Diluted weighted average number of shares outstanding (in millions)	**68.2**	68.2	68.1	68.1	68.1	68.0	68.0	68.1

(1) *Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Notes 3 and 12 of the Company's second quarter unaudited condensed consolidated financial statements.*
(2) *See "Non-GAAP Financial Measures" section of this MD&A.*
(3) *Net of non-controlling interest.*

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

Consolidated sales and net earnings, net of non-controlling interest, have been influenced by the Company's investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicality of both residential and commercial real estate, and by other risk factors as outlined in the fiscal 2013 annual MD&A and the Risk Factors section of the Short Form Prospectus filed July 24, 2013.

FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

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

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

During the 13 and 26 weeks ended November 2, 2013, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 18 and 39 stores, respectively (13 and 26 weeks ended November 3, 2012 - 15 and 27 stores).

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of $5.8 billion, subject to a working capital adjustment. The agreement includes the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities. On October 22, 2013, regulatory clearance was obtained from the Competition Bureau which included the required divestiture of 23 Sobeys and Canada Safeway stores. The Sobeys locations required to be divested have been included in assets held for sale as of November 2, 2013. Subsequent to the close of the second quarter, on November 4, 2013, the acquisition of Canada Safeway closed.

During the 13 and 26 weeks ended November 2, 2013, Sobeys incurred pre-tax acquisition costs of $16.8 million and $26.9 million, respectively, relating to external legal, consulting, due diligence and other closing costs. These costs have been included in selling and administrative expenses in the condensed consolidated statements of earnings. Subsequent to the end of the second quarter of fiscal 2014, financial advisory fees of $44.0 million have been incurred.

Business Process and Information System Transformation and Rationalization Costs

Sobeys has substantially completed the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration. In fiscal 2013, Sobeys completed an information systems implementation at Thrifty Foods which resulted in streamlined business processes for those stores.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010 and was completed in the third quarter of fiscal 2013. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 13 and 26 weeks ended November 3, 2012, Sobeys incurred $4.8 million and $8.7 million, respectively, of pre-tax costs related to these initiatives.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility commenced operations during the third quarter of fiscal 2013 and will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving service to its store network and customers. During the 13 and 26 weeks ended November 3, 2012, Sobeys recorded pre-tax severance (reversals) costs associated with the distribution network in Québec of $(0.5) million and $2.6 million, respectively.

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. This initiative was completed in fiscal 2013. During the 13 and 26 weeks ended November 3, 2012, Sobeys recorded pre-tax costs associated with this initiative of $0.9 million and $3.8 million, respectively.

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

	13 Weeks Ended (1)		($)	26 Weeks Ended (1)		($)
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 (2)	Change	**Nov. 2, 2013**	Nov. 3, 2012 (2)	Change
Sales	**$ 4,427.7**	$ 4,342.3	$ 85.4	**$ 9,033.7**	$ 8,849.4	$ 184.3
Adjusted EBITDA (3)(4)	**203.8**	201.7	2.1	**430.0**	446.6	(16.6)
EBITDA (3)	**190.1**	211.7	(21.6)	**405.3**	452.7	(47.4)
Adjusted operating income (3)(4)	**113.5**	117.5	(4.0)	**251.5**	277.4	(25.9)
Operating income (3)	**99.8**	127.5	(27.7)	**226.8**	283.5	(56.7)
Adjusted net earnings (3)(4)(5)	**71.7**	75.8	(4.1)	**158.6**	174.1	(15.5)
Net earnings (5)	**56.3**	83.4	(27.1)	**135.5**	179.1	(43.6)

(1) Net of consolidation adjustments which include a purchase price allocation from the privatization of Sobeys.
(2) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.
(3) See "Non-GAAP Financial Measures" section of this MD&A.
(4) Excludes items which are considered not indicative of underlying business operating performance.
(5) Net of non-controlling interest.

Sales

Empire's food retailing segment achieved sales of $4.43 billion for the 13 weeks ended November 2, 2013, an increase of $85.4 million or 2.0 percent over the same quarter last year. The growth in Sobeys' reported sales in the second quarter of fiscal 2014 was a result of Sobeys' continued investment in its retail network, coupled with the continued implementation of sales and merchandising initiatives. Sobeys' same-store sales increased 0.2 percent from the prior year.

For the first half of fiscal 2014, Empire's food retailing segment recorded sales of $9.03 billion, an increase of $184.3 million or 2.1 percent from the same period last year. Sobeys' same-store sales increased 0.1 percent in the first half of fiscal 2014 compared to the same period last year.

Sales growth was impacted by low food inflation and increased competition during the 13 and 26 weeks ended November 2, 2013.

During the second quarter of fiscal 2014, Sobeys opened, acquired or relocated 15 stores. There were 3 stores rebannered or redeveloped and 6 stores closed during the quarter.

Gross Profit

Sobeys recorded gross profit for the 13 weeks ended November 2, 2013 of $993.3 million, a decrease of $2.9 million or 0.3 percent compared to $996.2 million in the same quarter last year. Gross margin percentage decreased 51 basis points to 22.49 percent in the current quarter compared to 23.00 percent for the quarter ended November 3, 2012. The decrease in gross margin is a result of a highly promotional retail grocery environment.

Gross profit recorded by Sobeys for the 26 weeks ended November 2, 2013 was $2,031.1 million, a decrease of $5.9 million or 0.3 percent compared to $2,037.0 million recorded in the same period last year. For the first half of fiscal 2014, Sobeys' gross margin percentage decreased 54 basis points to 22.54 percent compared to 23.08 percent in the same period in fiscal 2013.

EBITDA

Sobeys contributed EBITDA to Empire for the second quarter of fiscal 2014 of $190.1 million (4.29 percent of sales) compared to $211.7 million (4.88 percent of sales) for the same period last year, a decrease of $21.6 million or 10.2 percent. EBITDA was impacted by lower gross margin, as mentioned, combined with increased selling and administrative expenses, which were largely the result of transaction costs of $16.8 million associated with the Canada Safeway acquisition, and a reduction in gains on the disposal of assets of $7.6 million. After adjusting for these and other items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys' adjusted EBITDA contribution to Empire for the 13 weeks ended November 2, 2013 was $203.8 million (4.60 percent of sales) compared to $201.7 million (4.65 percent of sales) in the same quarter last year, an increase of $2.1 million or 1.0 percent.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 [1]	**Nov. 2, 2013**	Nov. 3, 2012 [1]
EBITDA [2] (contributed by Sobeys)	**$ 190.1**	$ 211.7	**$ 405.3**	$ 452.7
Adjustments:				
Transaction costs associated with the Canada Safeway acquisition	**16.8**	-	**26.9**	-
Gain on disposal of assets	**(2.8)**	(10.4)	**(1.9)**	(11.8)
Dilution gains	**(0.3)**	-	**(0.3)**	(0.7)
Organizational realignment costs	**-**	0.9	**-**	3.8
Québec distribution network restructuring	**-**	(0.5)	**-**	2.6
	13.7	(10.0)	**24.7**	(6.1)
Adjusted EBITDA [2]	**$ 203.8**	$ 201.7	**$ 430.0**	$ 446.6

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.

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

For the first half of fiscal 2014, Sobeys contributed EBITDA to Empire of $405.3 million (4.49 percent of sales) compared to $452.7 million (5.12 percent of sales) in the comparative period in fiscal 2013, a decrease of $47.4 million or 10.5 percent. This decrease primarily relates to increased selling and administrative expenses in the 26 weeks ended November 2, 2013 compared to the same period in the prior year. Included in EBITDA for the first half of fiscal 2014 were transaction costs of $26.9 million associated with the Canada Safeway acquisition and a reduction in gains on the disposal of assets of $9.9 million. After adjusting for these and other items which are considered not indicative of underlying business operating performance, as presented in the preceding table, Sobeys' adjusted EBITDA contribution to Empire for the first half of fiscal 2014 was $430.0 million (4.76 percent of sales) compared to $446.6 million (5.05 percent of sales) in the same period last year, a decrease of $16.6 million or 3.7 percent.

Operating Income

Sobeys' operating income contribution to Empire for the 13 weeks ended November 2, 2013 was $99.8 million (2.25 percent of sales) compared to $127.5 million (2.94 percent of sales) in the same period last year, a decrease of $27.7 million. As mentioned, this decrease is the result of an increase to the already strong competitive environment in which Sobeys operates, higher depreciation and amortization expense, transaction costs related to the Canada Safeway acquisition and lower gains on the disposal of assets. After adjusting for items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys contributed adjusted operating income to Empire in the 13 weeks ended November 2, 2013 of $113.5 million (2.56 percent of sales) compared to $117.5 million (2.71 percent of sales) in the same period last year, a decrease of $4.0 million or 3.4 percent.

For the first half of fiscal 2014, Sobeys' operating income contribution to Empire was $226.8 million (2.51 percent of sales) compared to $283.5 million (3.20 percent of sales) in the same period last year, a decrease of $56.7 million. After adjusting for items which are considered not indicative of underlying business operating performance, as presented in the following table, Sobeys contributed adjusted operating income to Empire in the first half of fiscal 2014 of $251.5 million (2.78 percent of sales) compared to $277.4 million (3.13 percent of sales) in the same period last year, a decrease of $25.9 million or 9.3 percent.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 [1]	**Nov. 2, 2013**	Nov. 3, 2012 [1]
Operating income [2] (contributed by Sobeys)	**$ 99.8**	$ 127.5	**$ 226.8**	$ 283.5
Adjustments:				
Transaction costs associated with the Canada Safeway acquisition	**16.8**	-	**26.9**	-
Gain on disposal of assets	**(2.8)**	(10.4)	**(1.9)**	(11.8)
Dilution gains	**(0.3)**	-	**(0.3)**	(0.7)
Organizational realignment costs	**-**	0.9	**-**	3.8
Québec distribution network restructuring	**-**	(0.5)	**-**	2.6
	13.7	(10.0)	**24.7**	(6.1)
Adjusted operating income [2]	**$ 113.5**	$ 117.5	**$ 251.5**	$ 277.4

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of non-controlling interest, of $71.7 million to Empire for the 13 weeks ended November 2, 2013 compared to $75.8 million in the same period last year, a decrease of $4.1 million or 5.4 percent.

For the first half of fiscal 2014, Sobeys contributed adjusted net earnings, net of non-controlling interest, of $158.6 million to Empire compared to $174.1 million in the same period last year, a decrease of $15.5 million or 8.9 percent.

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

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 [1]	**Nov. 2, 2013**	Nov. 3, 2012 [1]
Net earnings (contributed by Sobeys) [2]	**$ 56.3**	$ 83.4	**$ 135.5**	$ 179.1
Adjustments:				
Transaction costs associated with the Canada Safeway acquisition	**12.0**	-	**19.1**	-
Finance costs associated with the Canada Safeway acquisition	**5.9**	-	**5.9**	-
Gain on disposal of assets	**(2.3)**	(7.9)	**(1.7)**	(9.2)
Dilution gains	**(0.2)**	-	**(0.2)**	(0.5)
Organizational realignment costs	**-**	0.7	**-**	2.8
Québec distribution network restructuring	**-**	(0.4)	**-**	1.9
	15.4	(7.6)	**23.1**	(5.0)
Adjusted net earnings [2][3]	**$ 71.7**	$ 75.8	**$ 158.6**	$ 174.1

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.
(2) Net of non-controlling interest.
(3) See "Non-GAAP Financial Measures" section of this MD&A.

Net Earnings

Sobeys contributed net earnings, net of non-controlling interest, of $56.3 million to Empire in the second quarter of fiscal 2014, a decrease of $27.1 million from the $83.4 million recorded in the same quarter of the prior year. This decrease is the result of lower margins combined with increased selling and administrative expenses, which were largely the result of transaction and finance costs of $17.9 million, net of tax, incurred during the second quarter of fiscal 2014 associated with the Canada Safeway acquisition.

For the first half of fiscal 2014, Sobeys contributed net earnings, net of non-controlling interest, of $135.5 million to Empire, a decrease of $43.6 million from the $179.1 million recorded in the same period last year. Included in net earnings in the first half of fiscal 2014 were transaction and finance costs of $25.0 million, net of tax, associated with the Canada Safeway acquisition.

Investments and Other Operations

Empire's investments and other operations segment includes its equity investments in real estate, which are focused on: (i) the ownership of income-producing retail, office and mixed-use properties through a 42.1 percent equity accounted ownership interest in Crombie REIT and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through its investments in Genstar.

On June 27, 2013, the Company announced that it had reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres and 170 screens in Atlantic Canada and 2 theatres with 48 screens in Ontario. The Company had also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres and 179 screens in Ontario and Western Canada. On November 1, 2013, the Company announced that Empire Theatres completed the sale of 46 theatres with 397 screens in separate transactions with Cineplex Inc. and Landmark Cinemas. The aggregate gross purchase price paid to Empire Theatres in the two transactions was approximately $248 million in cash. See the "Discontinued Operations" section of this MD&A.

During the first quarter of fiscal 2014, the Company entered into The Fraipont Partnership, with its equity accounted ownership interest being 49.0 percent. This partnership is being accounted for as part of real estate partnerships (Genstar).

The table below presents sales, adjusted EBITDA, EBITDA, operating income, adjusted net earnings from continuing operations, net earnings from continuing operations, net earnings from discontinued operations, and net earnings for the investments and other operations segment:

($ in millions)	13 Weeks Ended **Nov. 2, 2013**	13 Weeks Ended Nov. 3, 2012	($) Change	26 Weeks Ended **Nov. 2, 2013**	26 Weeks Ended Nov. 3, 2012	($) Change
Sales [(1)]	**$ 0.8**	$ 6.5	$ (5.7)	**$ 4.2**	$ 8.5	$ (4.3)
Adjusted EBITDA [(2)(3)]	**11.0**	11.5	(0.5)	**17.2**	19.8	(2.6)
EBITDA [(1)(2)]	**6.7**	11.5	(4.8)	**13.7**	31.2	(17.5)
Operating income [(2)]						
Crombie REIT [(4)]	**5.4**	4.2	1.2	**12.1**	9.7	2.4
Real estate partnerships [(5)]	**8.0**	4.6	3.4	**11.1**	9.2	1.9
Other operations, net of corporate expenses [(1)(6)]	**(6.8)**	1.9	(8.7)	**(9.7)**	10.8	(20.5)
	6.6	10.7	(4.1)	**13.5**	29.7	(16.2)
Adjusted net earnings from continuing operations [(2)(3)]	**6.4**	6.9	(0.5)	**9.2**	11.2	(2.0)
Net earnings from continuing operations	**4.2**	6.9	(2.7)	**7.6**	19.3	(11.7)
Net earnings from discontinued operations	**108.7**	1.6	107.1	**91.1**	1.1	90.0
Net earnings	**112.9**	8.5	104.4	**98.7**	20.4	78.3

(1) Results generated from Empire Theatres have been recorded in discontinued operations.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Excludes items which are considered not indicative of underlying business operating performance.
(4) 42.1 percent equity accounted interest in Crombie REIT (November 3, 2012 - 43.0 percent interest).
(5) Interests in Genstar.
(6) 13 and 26 weeks ended November 2, 2013 included organizational realignment and restructuring costs of $8.4 million and $8.4 million, respectively, and dilution gains of $4.1 million and $4.1 million, respectively (13 and 26 weeks ended November 3, 2012 - organizational realignment and restructuring costs of $nil and $nil; and dilution gains of $nil and $11.4 million).

At November 2, 2013, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	November 2, 2013		
($ in millions)	**Fair Value**	**Carrying Value**	**Unrealized Gain**
Investment in Crombie REIT	**$ 527.1**	**$ 195.1**	**$ 332.0**
Investment in Genstar [1]	**212.6**	**212.6**	**-**
Canadian Digital Cinema Partnership [1]	**9.8**	**9.8**	**-**
Other investments [1][2]	**24.3**	**24.3**	**-**
	$ 773.8	**$ 441.8**	**$ 332.0**

	May 4, 2013		
($ in millions)	Fair Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	$ 622.7	$ 195.2	$ 427.5
Investment in Genstar [1]	203.2	203.2	-
Canadian Digital Cinema Partnership [1]	9.2	9.2	-
Other investments [1][2]	39.5	39.5	-
	$ 874.6	$ 447.1	$ 427.5

	November 3, 2012		
($ in millions)	Fair Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	$ 570.5	$ 183.7	$ 386.8
Investment in Genstar [1]	134.1	134.1	-
Canadian Digital Cinema Partnership [1]	7.8	7.8	-
Other investments [1][2]	31.4	31.4	-
	$ 743.8	$ 357.0	$ 386.8

(1) Assumes fair value equals carrying value.

(2) Includes an investment in Crombie REIT Series D convertible unsecured subordinated debentures (the "Debentures") with a market value of $24.1 million (November 3, 2012 - $24.5 million). During the first quarter of fiscal 2013, the Company purchased $24.0 million of Debentures, which as at November 2, 2013, had a market value of $24.1 million. On September 25, 2012, the Company converted Crombie REIT Series B convertible unsecured subordinated debentures with a face value of $10.0 million into 909,090 units of Crombie REIT. The units were recorded at the exchange amount of $13.8 million, resulting in a pre-tax gain of $3.8 million.

Sales

Investments and other operations' sales equalled $0.8 million in the second quarter ended November 2, 2013 versus $6.5 million in the second quarter last year, a decrease of $5.7 million. Sales generated from Empire Theatres have been recorded in discontinued operations. Up to the date of closing of the Empire Theatres sale of assets on November 1, 2013, sales from the Company's discontinued operations totalled $71.9 million in the second quarter of fiscal 2014 compared to $55.3 million last year, an increase of $16.6 million.

For the first half of fiscal 2014, investments and other operations' sales totalled $4.2 million compared to $8.5 million in the same period last year, a decrease of $4.3 million. Up to the date of closing of the Empire Theatres sale of assets on November 1, 2013, sales generated from Empire Theatres, as accounted for in discontinued operations, increased $23.0 million to $126.9 million in the first half of fiscal 2014 from $103.9 million last year.

EBITDA

Investments and other operations contributed EBITDA to Empire for the second quarter ended November 2, 2013 of $6.7 million compared to $11.5 million in the same period last year, a decrease of $4.8 million. The 13 weeks ended November 2, 2013 included organizational realignment and restructuring costs of $8.4 million and dilution gains of $4.1 million, respectively (13 weeks ended November 3, 2012 - $nil and $nil). After adjusting for these items which are considered not indicative of underlying business operating performance, as presented in the following table, investments and other operations' adjusted EBITDA for the second quarter was $11.0 million compared to $11.5 million last year, a decrease of $0.5 million or 4.3 percent.

For the first half of fiscal 2014, investments and other operations contributed EBITDA to Empire of $13.7 million compared to $31.2 million last year, a decrease of $17.5 million. The 26 weeks ended November 2, 2013 included organizational realignment and restructuring costs of $8.4 million and dilution gains of $4.1 million, respectively (26 weeks ended November 3, 2012 - $nil and $11.4 million). After adjusting for these and other items which are considered not indicative of underlying business operating performance, as presented in the following table, investments and other operations' adjusted EBITDA for the first half of fiscal 2014 was $17.2 million compared to $19.8 million last year, a decrease of $2.6 million or 13.1 percent.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012	**Nov. 2, 2013**	Nov. 3, 2012
EBITDA [1][2] (investments and other operations)	**$ 6.7**	$ 11.5	**$ 13.7**	$ 31.2
Adjustments:				
Organizational realignment and restructuring costs	**8.4**	-	**8.4**	-
Dilution gains	**(4.1)**	-	**(4.1)**	(11.4)
Gain on disposal of assets	**-**	-	**(0.8)**	-
	4.3	-	**3.5**	(11.4)
Adjusted EBITDA [1]	**$ 11.0**	$ 11.5	**$ 17.2**	$ 19.8

(1) See "Non-GAAP Financial Measures" section of this MD&A.
(2) EBITDA generated from Empire Theatres has been recorded in discontinued operations.

Operating Income

Investments and other operations contributed operating income of $6.6 million in the 13 weeks ended November 2, 2013 versus $10.7 million in the same period last year, a decrease of $4.1 million. The contributors to operating income in the second quarter of fiscal 2014 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $5.4 million in the 13 weeks ended November 2, 2013, up $1.2 million from the $4.2 million recorded in the 13 weeks ended November 3, 2012. The increase was driven primarily by increased property net operating income due to acquisitions and redevelopment activity.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were $8.0 million in the 13 weeks ended November 2, 2013, an increase of $3.4 million compared to $4.6 million recorded in the same period last year, primarily as a result of stronger lot sales during the quarter.
- Other operations, net of corporate expenses, contributed operating income of $(6.8) million in the second quarter of fiscal 2014, down $8.7 million from the $1.9 million recorded in the same period last year. The 13 weeks ended November 2, 2013 included organizational realignment and restructuring costs of $8.4 million and dilution gains of $4.1 million, respectively (13 weeks ended November 3, 2012 - $nil and $nil).

After adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, resulted in an adjusted operating income contribution for the 13 weeks ended November 2, 2013 of $10.9 million compared to $10.7 million in 13 weeks ended November 3, 2012, an increase of $0.2 million or 1.9 percent.

For the first half of fiscal 2014, investments and other operations contributed operating income of $13.5 million compared to $29.7 million in the same period last year, a decrease of $16.2 million. The contributors to operating income in the first half of fiscal 2014 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $12.1 million in the first half of fiscal 2014, up $2.4 million from the $9.7 million recorded in the same period last year. The increase was driven primarily by higher property net operating income, as discussed.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were $11.1 million in the first half of fiscal 2014, an increase of $1.9 million compared to $9.2 million recorded in the same period last year, primarily as a result of stronger lot sales, as mentioned.
- Other operations, net of corporate expenses, contributed operating income of $(9.7) million in the first half of fiscal 2014, down $20.5 million from the $10.8 million recorded in the same period last year. The 26 weeks ended November 2, 2013 included organizational realignment and restructuring costs of $8.4 million and dilution gains of $4.1 million, respectively (26 weeks ended November 3, 2012 - $nil and $11.4 million).

After adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as presented in the preceding table for EBITDA, resulted in an adjusted operating income contribution for the first half of fiscal 2014 of $17.0 million compared to $18.3 million last year, a decrease of $1.3 million or 7.1 percent.

Adjusted Net Earnings from Continuing Operations

Investments and other operations contributed adjusted net earnings from continuing operations of $6.4 million for the 13 weeks ended November 2, 2013 compared to a contribution of $6.9 million last year, a decrease of $0.5 million. Included in net earnings from continuing operations in the 13 weeks ended November 2, 2013 were organizational realignment and restructuring costs, net of tax, of $5.1 million and dilution gains, net of tax, of $2.9 million, respectively (13 weeks ended November 3, 2012 - $nil and $nil).

Investments and other operations contributed adjusted net earnings from continuing operations of $9.2 million for the 26 weeks ended November 2, 2013 compared to a contribution of $11.2 million last year, a decrease of $2.0 million. Included in net earnings from continuing operations in the 26 weeks ended November 2, 2013 were organizational realignment and restructuring costs, net of tax, of $5.1 million and dilution gains, net of tax, of $2.9 million, respectively (26 weeks ended November 3, 2012 - $nil and $8.1 million). The following table adjusts reported net earnings from continuing operations for these and other items which are considered not indicative of underlying business operating performance:

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012	**Nov. 2, 2013**	Nov. 3, 2012
Net earnings from continuing operations (investments and other operations)	**$ 4.2**	$ 6.9	**$ 7.6**	$ 19.3
Adjustments:				
Organizational realignment and restructuring costs	**5.1**	-	**5.1**	-
Dilution gains	**(2.9)**	-	**(2.9)**	(8.1)
Gain on disposal of assets	**-**	-	**(0.6)**	-
	2.2	-	**1.6**	(8.1)
Adjusted net earnings from continuing operations (1)	**$ 6.4**	$ 6.9	**$ 9.2**	$ 11.2

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

Net Earnings from Continuing Operations

During the 13 weeks ended November 2, 2013, investments and other operations contributed $4.2 million to Empire's consolidated net earnings from continuing operations compared to a contribution of $6.9 million in the same period last year. The $2.7 million decrease is primarily attributed to organizational realignment and restructuring costs, net of tax, of $5.1 million, partially offset by dilution gains, net of tax, of $2.9 million both recorded in the second quarter of fiscal 2014, as discussed.

For the first half of fiscal 2014, investments and other operations contributed $7.6 million to Empire's consolidated net earnings from continuing operations compared to a contribution of $19.3 million in the same period last year. The $11.7 million decrease is primarily attributed to organizational realignment and restructuring costs, net of tax, of $5.1 million and a reduction in dilution gains, net of tax, of $5.2 million, both recorded in the 26 weeks ended November 2, 2013.

Net Earnings

Investments and other operations contributed $112.9 million to Empire's consolidated net earnings in the second quarter of fiscal 2014 compared to $8.5 million in the same period last year. The $104.4 million increase is primarily attributed to the gain, net of tax, on the sale of Empire Theatres' assets of $105.3 million, as recorded in net earnings from discontinued operations.

For the first half of fiscal 2014, investments and other operations contributed $98.7 million to Empire's consolidated net earnings compared to $20.4 million in the same period last year. The $78.3 million increase is primarily related to higher net earnings from discontinued operations of $90.0 million, which includes the gain, net of tax, of $105.3 million from the sale of Empire Theatres' assets, as discussed. Partially offsetting this increase were lower net earnings from continuing operations of $11.7 million, primarily as a result of organizational realignment and restructuring costs, net of tax, of $5.1 million and lower dilution gains, net of tax, of $5.2 million, both recorded in the first half of fiscal 2014.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

The Company's overall financial condition remained healthy as evidenced by the capital structure and key financial condition measures presented in the table below.

($ in millions, except per share and ratio calculations)		**Nov. 2, 2013**		May 4, 2013 (1)		Nov. 3, 2012 (1)
Shareholders' equity, net of non-controlling interest	**$**	**3,957.7**	$	3,724.8	$	3,553.0
Book value per common share (2)	**$**	**58.23**	$	54.82	$	52.29
Bank indebtedness	**$**	**-**	$	6.0	$	34.3
Long-term debt, including current portion	**$**	**1,140.5**	$	963.5	$	939.8
Funded debt to total capital (2)(3)		**22.4%**		20.7%		21.5%
Net funded debt to net total capital (2)		**8.1%**		12.1%		14.1%
Funded debt to EBITDA (2)(3)(4)(5)		**1.3x**		1.1x		1.1x
EBITDA to interest expense (2)(4)(6)		**12.9x**		17.9x		16.5x
Current assets to current liabilities (2)		**1.1x**		1.0x		1.0x
Total assets	**$**	**10,279.7**	$	7,140.4	$	6,897.4

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 to the Company's second quarter unaudited condensed consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) When the $1.0 billion in notes payable in escrow become included in long-term debt, funded debt to total capital would be 35.1 percent and funded debt to EBITDA would be 2.5 times as at November 2, 2013.
(4) Ratios for November 2, 2013 and May 4, 2013 exclude EBITDA and interest expense relating to discontinued operations.
(5) Calculation uses trailing four-quarter EBITDA.
(6) Calculation uses trailing four-quarter EBITDA and interest expense.

Shareholders' Equity

Book value per common share was $58.23 at November 2, 2013 compared to $56.01 at the end of the prior quarter. The increase in book value largely reflects growth in retained earnings.

The Company's share capital on November 2, 2013 consisted of:

	Authorized Number of Shares	**Issued and Outstanding Number of Shares**		**$ in Millions**
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	-	$	-
Non-Voting Class A shares, without par value	257,044,056	33,709,996		312.2
Class B common shares, without par value, voting	40,800,000	34,260,763		7.6
			$	319.8

There were 33,709,996 Non-Voting Class A and 34,260,763 Class B common shares outstanding at November 2, 2013 for a total of 67,970,759 shares outstanding. This compares to 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares for a total of 67,948,510 shares outstanding at August 3, 2013, May 4, 2013 and November 3, 2012. During the quarter ended November 2, 2013, 22,249 Non-Voting Class A shares were issued from the exercise of options (13 weeks ended November 3, 2012 - none).

Empire had 1,007,061 options outstanding at November 2, 2013 compared to 716,151 options outstanding at August 3, 2013, and 684,128 options outstanding at May 4, 2013 and November 3, 2012. During the quarter ended November 2, 2013, 372,383 options were granted, 50,000 options were exercised and 31,473 options were cancelled. For the 13 weeks ended November 3, 2012, no options were granted, exercised or cancelled.

On July 24, 2013, as part of the financing of the Canada Safeway acquisition, the Company filed a final prospectus for the issuance of 21.1 million subscription receipts (the "Subscription Receipts") at a price of $76.00 per Subscription Receipt, for aggregate gross proceeds of $1,603.6 million, to a syndicate of underwriters. Empire also granted the underwriters an over-allotment option to purchase up to an additional 3.165 million Subscription Receipts for additional gross proceeds of up to $240.5 million to cover over-allotments, if any, and for market stabilization purposes. On July 31, 2013, the Company announced that it closed its previously announced offering of 21.1 million Subscription Receipts at a price of $76.00, along with the syndicate of underwriters exercising in full their over-allotment option, for total gross proceeds of $1,844.1 million. Each Subscription Receipt entitles the holder thereof to receive, on satisfaction of the conditions precedent to closing (the "Escrow Release Condition"), and without payment of additional consideration or further action, one Non-Voting Class A share and, if applicable, a payment equal to any cash dividends declared by Empire for which record dates have occurred during the period from July 31, 2013 to and including the date immediately preceding the date on which the Non-Voting Class A shares are issued.

As at November 2, 2013, the net proceeds from the sale of the Subscription Receipts were held in trust by CST Trust Company, the Subscription Receipt agent, pending the satisfaction of the Escrow Release Condition, which was reached on November 4, 2013, subsequent to the end of the quarter. As a result, the Subscription Receipts were exchanged for Non-Voting Class A shares and funds of $1,812.0 million were released from escrow and used to partially finance the Canada Safeway acquisition. Further information on the Sobeys' Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in the "Business Acquisition" section of this MD&A.

Subsequent to the end of the second quarter of fiscal 2014, upon satisfaction of the Escrow Release Condition on November 4, 2013 and closing of the Canada Safeway acquisition, Empire issued an additional 24,265,000 Non-Voting Class A shares upon the exchange of Subscription Receipts. In addition, on November 8, 2013, Empire granted an additional 419,007 options to acquire in aggregate 419,007 Non-Voting Class A shares and, on December 5, 2013, 279,364 options were cancelled. As at December 12, 2013, the Company had Non-Voting Class A and Class B common shares outstanding of 57,974,996 and 34,260,763, respectively, as well as 1,146,704 options to acquire in aggregate 1,146,704 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $17.6 million in the second quarter of fiscal 2014 ($0.26 per share) versus $16.3 million ($0.24 per share) in the second quarter of fiscal 2013.

Liabilities

Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at November 2, 2013 was $1,140.5 million, representing 100.0 percent of Empire's total funded debt. As at November 2, 2013, the net proceeds from Sobeys' private placement of unsecured notes totalling $987.1 million used to partially finance the Canada Safeway acquisition was held in current liabilities as notes payable on the condensed consolidated balance sheets.

The composition of total funded debt by segment is as follows:

($ in millions)	**Nov. 2, 2013**	May 4, 2013	Nov. 3, 2012
Bank indebtedness			
Investments and other operations	**$ -**	$ 6.0	$ 34.3
Long-term debt (including current portion)			
Food retailing	**754.7**	765.2	766.4
Investments and other operations	**385.8**	198.3	173.4
Total funded debt [1]	**$ 1,140.5**	$ 969.5	$ 974.1

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

Consolidated funded debt was $1,140.5 million at November 2, 2013 compared to $974.1 million at November 3, 2012, an increase of $166.4 million or 17.1 percent. The increase in consolidated funded debt from the prior year was due to an increase in funded debt in investments and other operations of $178.1 million, partially offset by an $11.7 million decline in funded debt at Sobeys. The increase in funded debt in investments and other operations was primarily associated with the financing for the Canada Safeway acquisition which closed subsequent to the end of the quarter on November 4, 2013.

On August 8, 2013, in connection with the financing associated with the Canada Safeway acquisition, Sobeys completed a private placement of $500.0 million in aggregate principal amount of 3.52 percent Notes, Series 2013-1 due August 8, 2018 (the "Series 2013-1 Notes") and $500.0 million aggregate principal amount of 4.70 percent Notes, Series 2013-2 due August 8, 2023 (the "Series 2013-2 Notes" and together with the Series 2013-1 Notes, the "Notes"). The aggregate net proceeds were approximately $987.1 million after deducting underwriting fees and the purchase discount on the Series 2013-1 Notes. These net proceeds were held in escrow pending the satisfaction of the Escrow Release Condition which was reached on November 4, 2013, subsequent to the end of the quarter. Upon closing, the net proceeds of $987.1 million were used to partially finance the Canada Safeway acquisition. Further information on the Sobeys' Asset Purchase Agreement with Safeway Inc. and its subsidiaries can be found in the "Business Acquisition" section of this MD&A.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of $450.0 million, and a $200.0 million unsecured non-revolving term credit facility resulting in total authorized credit facilities of $650.0 million. The revolving term credit facility matures on February 14, 2017, and the non-revolving term credit facility matured and was repaid on July 23, 2012. Interest payable on the revolving term credit facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate. As of November 2, 2013, Sobeys had issued $82.3 million in letters of credit against the revolving term credit facility (May 4, 2013 - $80.6 million).

By way of agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of $1,825.0 million; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of $1,327.9 million; and a revolving term credit facility (the "RT Facility") in the amount of $450.0 million. The Acquisition Facility matures November 4, 2017. The Bridge Facility matures November 4, 2014 but may be extended per the terms of the credit agreement. The RT Facility matures on November 4, 2017. Interest payable on the facilities fluctuates with changes in the bankers' acceptance rate or Canadian prime rate.

Subsequent to the end of the second quarter, on November 4, 2013, the RT Facility replaced the Sobeys' existing unsecured revolving term credit facility of $450.0 million, the Acquisition Facility was fully drawn for $1,825.0 million and the Bridge Facility was drawn for $200.0 million in order to partially finance the Canada Safeway acquisition. The total amount of the Bridge Facility was reduced to $200.0 million from $1,327.9 million following the draw down as per the terms of the credit agreement. Deferred financing fees in the amount of $29.3 million were incurred on the draw down of the Acquisition and Bridge Facilities.

On September 26, 2012, Empire extended the term of the credit facility to a maturity date of June 30, 2015. Interest payable on the credit facility fluctuates with changes in the bankers' acceptance rate or Canadian prime rate. On November 4, 2013, subsequent to the end of the quarter, Empire further extended the term of the credit facility to a maturity date of November 4, 2017.

The ratio of funded debt to total capital has increased 0.9 percentage points to 22.4 percent from 21.5 percent at the end of the second quarter last year. The increase in funded debt was primarily a result of the financing associated with the Canada Safeway acquisition which closed subsequent to the end of the quarter, on November 4, 2013, and was partially offset by growth in retained earnings.

Empire's funded debt to EBITDA ratio increased to 1.3 times at November 2, 2013 compared to 1.1 times at the beginning of the fiscal year and the second quarter last year, largely as a result of the increase in funded debt, as mentioned, accompanied by a decline in trailing four-quarter EBITDA.

Empire’s EBITDA to interest expense ratio decreased from 16.5 times recorded at November 3, 2012 to 12.9 times at November 2, 2013. The decrease from fiscal 2013 is primarily due to an 18.2 percent increase in trailing four-quarter interest expense accompanied by a 7.7 percent decline in trailing four-quarter EBITDA.

On June 14, 2013, following the announcement of the Asset Purchase Agreement to acquire substantially all of the assets and select liabilities of Canada Safeway, Standard and Poor’s (“S&P”) reaffirmed Sobeys’ credit rating of BBB- but revised its outlook from stable to negative. On July 16, 2013, Dominion Bond Rating Service (“DBRS”) downgraded Sobeys’ credit rating from BBB with a stable trend to BBB (low) with a stable trend.

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

Financial Instruments

As part of Empire’s risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity risk. From time to time, the Company utilizes hedging instruments as deemed appropriate to mitigate risk exposure to one or more types of financial risk. The Company does not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 26 weeks ended November 2, 2013 or for the comparative periods in fiscal 2013.

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

<u>Fair Value Methodology</u>
When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at November 2, 2013 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third party quoted bid, ask and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates to determine the fair values. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

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

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

At November 2, 2013, consolidated cash and cash equivalents were $792.5 million versus $389.9 million at November 3, 2012. The Company also had funds held in escrow of $2,799.1 million at November 2, 2013 ($nil at November 3, 2012) in connection with the closing on July 31, 2013 of the Company's previously announced offering of 24.265 million Subscription Receipts and the closing on August 8, 2013 of Sobeys' previously announced offering of Notes, to partially fund the Canada Safeway acquisition. See "Shareholders' Equity" and "Liabilities" section of this MD&A.

At the end of the second quarter of fiscal 2014, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of $450.0 million, of which $385.8 million or 85.7 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $431.9 million at November 2, 2013.

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

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 and 26 weeks ended November 2, 2013 and for the fiscal year ended May 4, 2013.

The following table highlights major cash flow components for the 13 and 26 weeks ended November 2, 2013 compared to the 13 and 26 weeks ended November 3, 2012:

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 (1)	**Nov. 2, 2013**	Nov. 3, 2012 (1)
Net earnings	**$ 171.6**	$ 93.7	**$ 243.8**	$ 208.7
Non-cash and other cash items	**24.8**	131.5	**190.1**	280.2
Net change in non-cash working capital	**(152.7)**	(65.7)	**(108.6)**	(82.0)
Income taxes paid, net	**(32.9)**	(22.6)	**(146.5)**	(72.3)
Cash flows from operating activities	**10.8**	136.9	**178.8**	334.6
Cash flows used in investing activities	**(819.7)**	(104.5)	**(929.5)**	(235.5)
Cash flows from (used in) financing activities	**1,134.2**	(11.4)	**1,088.0**	(219.4)
Increase (decrease) in cash and cash equivalents	**$ 325.3**	$ 21.0	**$ 337.3**	$ (120.3)

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's second quarter unaudited condensed consolidated financial statements.

Operations

The second quarter of fiscal 2014 generated cash flows from operating activities of $10.8 million compared to $136.9 million in the second quarter last year. The $126.1 million decrease is attributed to a decline in non-cash and other cash items of $106.7 million, a decrease in the net change in non-cash working capital of $87.0 million and an increase in income taxes paid of $10.3 million, partially offset by an increase in net earnings of $77.9 million.

For the first half of fiscal 2014, cash flows from operating activities were $178.8 million compared to $334.6 million in the prior year. The decrease of $155.8 million is due to a decline in non-cash and other cash items of $90.1 million, accompanied by an increase in income taxes paid of $74.2 million and a decrease in the net change in non-cash working capital of $26.6 million, partially offset by an increase in net earnings of $35.1 million.

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

			13 Weeks Ended	
			Nov. 2, 2013	Nov. 3, 2012
($ in millions)	**Nov. 2, 2013**	Aug. 3, 2013	**Increase (Decrease) in Cash Flows**	Increase (Decrease) in Cash Flows
Receivables	**$ 381.8**	$ 359.7	**$ (22.1)**	$ (7.5)
Inventories	**932.5**	882.6	**(49.9)**	(42.7)
Prepaid expenses (1)	**150.8**	129.9	**(20.9)**	10.5
Accounts payable and accrued liabilities	**(1,764.8)**	(1,798.4)	**(33.6)**	(41.1)
Provisions	**(21.3)**	(25.1)	**(3.8)**	10.5
Impact of reclassifications on working capital (1)	**22.4**	-	**(22.4)**	4.6
Total	**$ (298.6)**	$ (451.3)	**$ (152.7)**	$ (65.7)

(1) Impacted by $36.8 million of underwriters' fees relating to the Subscription Receipt offering which closed on July 31, 2013. See "Shareholders' Equity" section of this MD&A.

The net change in non-cash working capital of $(152.7) million in the second quarter is largely attributed to: (i) an increase in inventories of $49.9 million; (ii) a decrease in accounts payables and accrued liabilities of $33.6 million; (iii) an increase in receivables of $22.1 million; and (iv) an increase in prepaid expenses of $20.9 million. In the second quarter of fiscal 2014, the changes with inventories and accounts payable and accrued liabilities were consistent with changes in the same period last year. Prepaid expenses increased by $20.9 million compared to a decrease of $10.5 million during the same period in fiscal 2013, largely as a result of Sobeys' prepayment of land transfer fees relating to the Canada Safeway acquisition, which closed subsequent to the end of the quarter.

The Company's ratio of current assets to current liabilities was 1.1 times at November 2, 2013 compared to 1.0 times at the beginning of the current fiscal year and from the end of the second quarter last year.

Investment

Cash used in investing activities of $819.7 million in the second quarter of fiscal 2014 increased $715.2 million compared to cash used of $104.5 million last year. The increase was primarily the result of an increase in funds held in escrow of $987.1 million associated with the proceeds from the private placement of Sobeys' unsecured notes in connection with the Canada Safeway acquisition. Partially offsetting this increase was: (i) an increase in proceeds on the disposal of property, equipment and investment property of $208.6 million; (ii) proceeds on the sale of asset backed commercial paper of $26.0 million; (iii) a decrease in the purchase of property, equipment and investment property of $16.9 million; (iv) a decrease in cash used for investments of $12.6 million; and (v) a decrease in additions to intangibles of $5.3 million.

Consolidated purchases of property, equipment and investment properties totalled $112.3 million in the 13 weeks ended November 2, 2013 compared to $129.2 million in the 13 weeks ended November 3, 2012. Proceeds on the disposal of property, equipment and investment properties increased $208.6 million from $62.5 million recorded in the second quarter of fiscal 2013 to $271.1 million recorded in the second quarter of fiscal 2014.

For the first half of fiscal 2014, cash used in investing activities was $929.5 million compared to cash used of $235.5 million last year, an increase of $694.0 million. The increase was primarily the result of an increase in funds held in escrow of $987.1 million associated with the proceeds from the private placement of Sobeys' unsecured notes in connection with the Canada Safeway acquisition. Partially offsetting this increase was: (i) an increase in proceeds on the disposal of property, equipment and investment property of $207.0 million; (ii) a decrease in cash used for investments of $41.8 million; (iii) a decrease in the purchase of property, equipment and investment property of $33.3 million; and (iv) an increase in cash from loans and other receivables of $9.2 million.

For the first half of fiscal 2014, consolidated purchases of property, equipment and investment properties totalled $220.5 million compared to $253.8 million in the same period last year. Proceeds on the disposal of property, equipment and investment properties increased $207.0 million from $72.5 million recorded in the first half of fiscal 2013 to $279.5 million recorded in the first half of fiscal 2014.

The table below outlines the number of stores Sobeys invested in during the 13 and 26 weeks ended November 2, 2013 compared to the 13 and 26 weeks ended November 3, 2012:

	13 Weeks Ended		26 Weeks Ended	
# of stores	**Nov. 2, 2013**	Nov. 3, 2012	**Nov. 2, 2013**	Nov. 3, 2012
Opened/acquired/relocated	**15**	12	**32**	22
Expanded	**-**	1	**-**	1
Rebannered/redeveloped	**3**	2	**7**	4
Closed	**6**	6	**16**	19

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended November 2, 2013, by type:

Square feet (in thousands)	13 Weeks Ended November 2, 2013	52 Weeks Ended November 2, 2013
Opened	167	929
Relocated	-	73
Acquired	28	50
Expanded	-	9
Closed	(96)	(421)
Net change	99	640

At November 2, 2013, Sobeys' square footage totalled 29.8 million square feet, a 2.4 percent increase over the 29.1 million square feet operated at the end of the second quarter last year.

Financing

Financing activities during the second quarter generated $1,134.2 million of cash compared to cash used of $11.4 million in the same quarter last year. The increase in cash generated of $1,145.6 million is primarily a result of the issuance of notes payable of $999.8 million for funds held in escrow as part of the private placement of Sobeys' unsecured notes and an increase in the issuance of long-term debt of $223.8 million, to partially fund the Canada Safeway acquisition. Partially offsetting these sources of cash were: (i) a decrease in bank indebtedness of $32.3 million; (ii) an increase in the repayment of long-term debt of $24.3 million; (iii) an increase in deferred financing costs associated with notes payable of $12.7 million; and (iv) an increase in stock option purchases of $6.6 million.

For the first half of fiscal 2014, cash generated from financing activities equalled $1,088.0 million compared to cash used of $219.4 million in the same period last year. The increase of $1,307.4 million is primarily a result of: (i) the private placement of Sobeys' unsecured notes in connection with the Canada Safeway acquisition of $999.8 million, as mentioned; (ii) an increase in the issuance of long-term debt of $201.5 million; and (iii) a reduction in the repayment of long-term debt of $161.2 million. The 26 weeks ended November 3, 2012 included Sobeys' repayment of its $200.0 million non-revolving credit facility which matured in the first quarter of fiscal 2013. Partially offsetting these sources of cash were: (i) a decrease in bank indebtedness of $35.9 million; (ii) an increase in deferred financing costs associated with notes payable of $12.7 million; and (iii) an increase in stock option purchases of $6.6 million.

Business Acquisition

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of $5.8 billion, subject to a working capital adjustment.

The agreement includes the purchase of:

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

On October 22, 2013, regulatory clearance was obtained from the Competition Bureau which included the required divestiture of 23 Sobeys and Canada Safeway stores. The Sobeys locations required to be divested have been included in assets held for sale as of November 2, 2013. Subsequent to the end of the second quarter, on November 4, 2013, the Canada Safeway transaction closed.

Empire and Sobeys financed the acquisition with a combination of the following:

- Empire equity offering of $1,844.1 million, net of fees of $73.8 million, which closed on July 31, 2013, as discussed in the "Shareholders' Equity" section of this MD&A;
- A $991.3 million sale-leaseback of acquired real estate assets, as discussed in the "Related Party Transactions" section of this MD&A;
- Term credit facilities of $2,025.0 million;
- The issuance of $1,000.0 million in unsecured notes by Sobeys, as discussed in the "Liabilities" section of this MD&A; and
- Available cash on hand.

Crombie REIT has a right of first offer in respect of any real estate sales undertaken by Sobeys.

The fair value of the identifiable assets and liabilities acquired on November 4, 2013 are as follows:

($ in millions)		
Property and equipment	**$**	**2,300.4**
Intangibles		**510.0**
Other assets and liabilities		**(116.6)**
Total identifiable net assets	**$**	**2,693.8**
Excess consideration paid over identifiable net assets acquired allocated to goodwill	**$**	**3,106.2**

The fair value of identifiable net assets and goodwill acquired on November 4, 2013 have been determined provisionally and will be subject to customary adjustments pending the finalization of the valuations and related accounting.

Pre-tax acquisition costs of $16.8 million and $26.9 million relating to external legal, consulting, due diligence and other closing costs incurred during the 13 and 26 weeks ended November 2, 2013, respectively, have been included in selling and administrative expenses in the condensed consolidated statements of earnings. Subsequent to the end of the second quarter of fiscal 2014, financial advisory fees of $44.0 million have been incurred.

Free Cash Flow

Free cash flow is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 13 and 26 weeks ended November 2, 2013 and the 13 and 26 ended November 3, 2012.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Nov. 2, 2013**	Nov. 3, 2012 [1]	**Nov. 2, 2013**	Nov. 3, 2012 [1]
Cash flows from operating activities	**$ 10.8**	$ 136.9	**$ 178.8**	$ 334.6
Add: proceeds on disposal of property, equipment and investment property	**271.1**	62.5	**279.5**	72.5
Less: property, equipment and investment property purchases	**(112.3)**	(129.2)	**(220.5)**	(253.8)
Free cash flow [2]	**$ 169.6**	$ 70.2	**$ 237.8**	$ 153.3

(1) Amounts have been restated as a result of a change in accounting policy. See the "Accounting Standards and Policies Adopted During Fiscal 2014" section of this MD&A and Note 3 of the Company's second quarter unaudited condensed consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.

Free cash flow generation in the second quarter of fiscal 2014 was $169.6 million compared to $70.2 million generated in the second quarter last year. The $99.4 million increase in free cash flow was due to a $208.6 million increase in proceeds on the disposal of property, equipment and investment property accompanied by a decrease in property, equipment and investment property purchases of $16.9 million, partially offset by a decrease in cash flows from operating activities of $126.1 million. The $126.1 million decrease in cash flows from operating activities is attributed to a decline in non-cash and other cash items of $106.7 million, a decrease in the net change in non-cash working capital of $87.0 million and an increase in income taxes paid of $10.3 million, partially offset by an increase in net earnings of $77.9 million.

For the first half of fiscal 2014, free cash flow generation was $237.8 million compared to $153.3 million generated last year. The $84.5 million increase in free cash flow was due to a $207.0 million increase in proceeds on the disposal of property, equipment and investment property and a decrease in property, equipment and investment property purchases of $33.3 million, partially offset by a decline in cash flows from operating activities of $155.8 million. The decrease of $155.8 million in cash flows from operating activities is due to a decline in non-cash and other cash items of $90.1 million, accompanied by an increase in income taxes paid of $74.2 million and a decrease in the net change in non-cash working capital of $26.6 million, partially offset by an increase in net earnings of $35.1 million.

ACCOUNTING STANDARDS AND POLICIES

Accounting Standards and Policies Adopted During Fiscal 2014

(i) Employee Benefits
In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The Company adopted and implemented the amendments to IAS 19 during its first quarter of fiscal 2014 and retrospective application was required. The impact from the adoption of the amendments to IAS 19 is summarized as follows:

Condensed Consolidated Statements of Earnings and Comprehensive Income Increase (Decrease) ($ in millions)	13 Weeks Ended Nov. 3, 2012	26 Weeks Ended Nov. 3, 2012	52 Weeks Ended May 4, 2013
Selling and administrative expenses	$ 0.2	$ 0.5	$ 0.9
Operating income	(0.2)	(0.5)	(0.9)
Finance costs, net	1.6	3.1	6.2
Earnings before income taxes	(1.8)	(3.6)	(7.1)
Income taxes	(0.4)	(0.9)	(1.8)
Net earnings	(1.4)	(2.7)	(5.3)
Other comprehensive income, net of taxes	1.2	2.4	4.7
Total comprehensive income	$ (0.2)	$ (0.3)	$ (0.6)

Condensed Consolidated Balance Sheets Increase (Decrease) ($ in millions)	As at Nov. 3, 2012	As at May 4, 2013	As at May 5, 2012
Deferred tax assets	$ 0.3	$ 0.3	$ 0.2
Other long-term liabilities	1.4	1.7	1.0
Retained earnings	(1.1)	(1.4)	(0.8)

The enhanced annual disclosures required for defined benefit plans will be included in the Company's annual consolidated financial statements for the year ended May 3, 2014.

(ii) Consolidated Financial Statements
In May 2011, the IASB issued International Financial Reporting Standards ("IFRS") 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation - Special Purpose Entities", completely. The standard became effective in the first quarter of fiscal 2014. The Company has evaluated the impact of this standard on its "Investments in associates" and has determined that while having significant influence on these investments, the criteria for control are not met and therefore equity accounting for these investments continues to be appropriate. Management has also evaluated the impact of this standard as it applies to SEs. Adoption of this standard had no significant impact on the Company's financial results.

(iii) Joint Arrangements
In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities - Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, the IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled. The standard became effective in the first quarter of fiscal 2014 and did not have a significant impact on the Company's financial statements.

(iv) Disclosure of Interests in Other Entities
In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard became effective in the first quarter of fiscal 2014 and will result in additional disclosures in the Company's annual financial statements.

(v) Fair Value Measurement
In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value and identifies required disclosures about fair value measurements. This IFRS became effective in the first quarter of fiscal 2014. The adoption of this standard had no measurement impact on the Company's financial results. Enhanced disclosures have been included in Note 16 to the unaudited, interim condensed consolidated financial statements.

(vi) Presentation of Financial Statements
In May 2012, the IASB issued amendments to IAS 1, "Presentation of Financial Statements", clarifying the requirements for comparative information. The amendments became effective in the first quarter of fiscal 2014 and did not have a significant impact on the Company's financial results and disclosures.

Future Accounting Policies

(i) Financial Instruments
In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(ii) Financial Instruments: Asset and Liability Offsetting
In December 2011, the IASB amended IAS 32, "Financial Instruments: Presentation", to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. IAS 32 amendments are effective for annual periods beginning on or after January 1, 2014.

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

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2013 annual MD&A.

Internal Control over Financial Reporting

Management of Empire, which includes the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in Empire's ICFR during the period beginning August 4, 2013 and ended November 2, 2013 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

RELATED PARTY TRANSACTIONS

The Company has related party transactions with Crombie REIT. At the end of the second quarter, the Company held a 42.1 percent ownership interest in Crombie REIT which is accounted for using the equity method. As a result of the conversion of Crombie REIT debentures during the second quarter of the current fiscal year, the Company's interest in Crombie REIT was reduced from 42.7 percent at the end of the first quarter of fiscal 2014 to 42.1 percent. On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.8 percent.

The Company rents premises from Crombie REIT at amounts which, in management's opinion, approximate fair market value. Based upon the significant number of leases negotiated with third parties operating in the same markets in which the Company rents premises from Crombie REIT, management has determined the rental payments to Crombie REIT to be indicative of fair value. During the 13 and 26 weeks ended November 2, 2013, the aggregate net payments under these leases, which are measured at exchange amount, were $24.2 million and $53.3 million, respectively (13 and 26 weeks ended November 3, 2012 - $20.4 million and $47.1 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 13 and 26 weeks ended November 2, 2013, charges incurred for administrative and management services were $0.1 million and $0.3 million, respectively (13 and 26 weeks ended November 3, 2012 - $0.2 million and $0.6 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of $2.0 million (November 3, 2012 - $2.7 million) related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

The Company owns Crombie REIT Debentures with a market value of $24.1 million (November 3, 2012 - $24.5 million). During the 13 and 26 weeks ended November 2, 2013, the Company received income related to these securities of $0.3 million and $0.6 million, respectively (13 and 26 weeks ended November 3, 2012 - $0.3 million and $0.6 million).

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

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

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

During the 26 weeks ended November 3, 2012, the Company sold three properties to Crombie REIT, all of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $50.2 million, resulting in a pre-tax gain of $5.6 million, which was recognized in the consolidated statements of earnings.

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT has agreed to indirectly acquire 70 properties included in the acquisition of substantially all of the assets of Canada Safeway for $991.3 million. The sale-leaseback transaction closed on November 4, 2013 immediately following the close of the Canada Safeway acquisition and is subject to customary close adjustments.

On closing of the acquisition of the 70 properties, the Company purchased $150.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently, the Company's interest in Crombie REIT was reduced from 42.1 percent to 41.6 percent.

SUBSEQUENT EVENT

Subsequent to the close of the second quarter, on November 4, 2013, Sobeys, through its Asset Purchase Agreement with Safeway Inc. and its subsidiaries, closed the transaction to purchase substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of $5.8 billion, subject to a working capital adjustment. The agreement provides for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities, plus the assumption of certain liabilities. Please refer to the following sections of this MD&A for further information on the Canada Safeway acquisition and related financing transactions: "Financial Performance by Segment: Food Retailing"; "Shareholders' Equity"; "Liabilities"; "Liquidity and Capital Resources"; and "Business Acquisition".

CONTINGENCIES

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

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

RISK MANAGEMENT

Risk and uncertainties related to economic and industry factors and the Company's management of risk are discussed in detail in the fiscal 2013 annual MD&A and the Risk Factors section of the Short Form Prospectus filed July 24, 2013.

ECONOMIC ENVIRONMENT

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

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 13 and 26 weeks ended November 2, 2013, the Company contributed $1.9 million and $3.8 million, respectively, to its registered defined benefit plans (13 and 26 weeks ended November 3, 2012 - $2.6 million and $5.1 million). The Company expects to contribute approximately $7.8 million in fiscal 2014 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

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

Dated: December 12, 2013
Stellarton, Nova Scotia, Canada