EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 AND 39 WEEKS ENDED FEBRUARY 1, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 13 and 39 weeks ended February 1, 2014 compared to the 13 and 39 weeks ended February 2, 2013. 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 39 weeks ended February 1, 2014, 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 March 12, 2014, 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;
- Completion, timing of completion and final proceeds of the divestiture of 30 retail stores which may be impacted by negotiation of final contractual arrangements, completion of conditions to closing contained in sales agreements and the ability of the purchasers to fulfill their obligations under those agreements;
- 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;
- 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; and
- Sobeys' expectations regarding the value and timing of goodwill deductibility for income tax purposes, which may be impacted by the final purchase price allocation of the identifiable net assets and goodwill related to the Canada Safeway acquisition.

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 March 12, 2014 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. Management believes that certain of these measures, including gross profit, operating income and earnings before interest, taxes, depreciation and amortization ("EBITDA") are important indicators of Empire's ability to generate liquidity through operating cash flow to fund future working capital needs, service outstanding debt, and fund future capital expenditures and uses these metrics for these purposes. In addition, management undertakes to adjust certain of these and other measures, including operating income, EBITDA and net earnings from continuing operations in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure, by excluding items such as gains or losses on the disposal of assets, dilution gains or losses, restructuring and other items which are considered not indicative of underlying business operating performance. The intent of non-GAAP financial measures is to provide additional useful information to investors and analysts and these measures are also used by investors and analysts for the purpose of valuing the Company. Non-GAAP financial measures should not be considered in isolation or used as a substitute for measures of performance prepared in accordance with GAAP. 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. Management believes that gross margin is an important indicator of cost control and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.
- EBITDA is calculated as net earnings from continuing operations, before finance costs (net of finance income), income taxes, and depreciation and amortization of intangibles. The exclusion of depreciation and amortization partially eliminates the non-cash impact from operating income.
- EBITDA margin is EBITDA divided by sales. Management believes that EBITDA margin is an important indicator of overall fixed and variable cost control (excluding depreciation and amortization of intangibles) and can help management, analysts and investors assess the competitive landscape, promotional environment of the industry, and overall management of fixed and variable operating costs. An increasing percentage indicates lower operating costs as a percentage of sales. The following table reconciles EBITDA to GAAP measures:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
Net earnings from continuing operations	**$ 4.3**	$ 70.3	**$ 157.0**	$ 277.9
Income taxes	**11.3**	26.9	**63.0**	103.2
Finance costs, net	**49.7**	12.5	**85.6**	41.8
Depreciation (2)	**105.9**	74.6	**260.0**	225.2
Amortization of intangibles (2)	**17.7**	11.3	**42.3**	31.4
EBITDA	**$ 188.9**	$ 195.6	**$ 607.9**	$ 679.5

(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 11 of the Company's third quarter unaudited condensed consolidated financial statements.

(2) Depreciation and amortization of intangibles from Empire Theatres have been recorded in discontinued operations and, as a result, these figures will not reflect those presented on the Company's condensed consolidated statements of cash flows.

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" and "Investments and Other Operations" sections of this MD&A.

- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings from continuing operations before finance costs (net of finance income) and income taxes.
- Operating income margin is operating income divided by sales.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance. Adjusted operating income is reconciled to operating income in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" and "Investments and Other Operations" sections of this MD&A.
- 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. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting total finance income. The following table reconciles interest expense to GAAP measures:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
Finance costs, net	**$ 49.7**	$ 12.5	**$ 85.6**	$ 41.8
Plus: finance income	**0.4**	2.2	**9.7**	4.1
Less: fair value losses on forward contracts	**-**	-	**(0.5)**	(0.6)
Less: net pension finance costs	**(3.3)**	(1.7)	**(7.0)**	(6.1)
Interest expense	**$ 46.8**	$ 13.0	**$ 87.8**	$ 39.2
Interest expense on financial liabilities measured at amortized cost	**$ 46.8**	$ 13.0	**$ 87.8**	$ 37.6
Losses on cash flow hedges reclassified from other comprehensive income	**-**	-	**-**	1.6
Interest expense	**$ 46.8**	$ 13.0	**$ 87.8**	$ 39.2

(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 11 of the Company's third quarter unaudited condensed consolidated financial statements.

- Adjusted net earnings from continuing operations is net earnings from continuing operations, net of non-controlling interest, excluding items which are considered not indicative of underlying business operating performance. Adjusted net earnings from continuing operations is reconciled to net earnings from continuing operations, net of non-controlling interest, in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" and "Investments and Other Operations" sections of this MD&A.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt. Management believes that funded debt represents the best indicator of the Company's total financial obligations on which interest payments are made.
- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company's financial obligations after 100 percent of cash and cash equivalents are applied against the total obligation.
- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.
- Net total capital is total capital less cash and cash equivalents.
- Funded debt to total capital ratio is funded debt divided by total capital.

- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that funded debt to total capital and net funded debt to net total capital ratios represent measures upon which the Company's changing capital structure can be analyzed over time. Increasing ratios would indicate that the Company is using an increasing amount of debt in its capital structure to fund it operations.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at February 1, 2014, May 4, 2013 and February 2, 2013, respectively:

($ in millions)	**Feb. 1, 2014**	May 4, 2013	Feb. 2, 2013
Bank indebtedness	**$ -**	$ 6.0	$ 1.1
Long-term debt due within one year	**374.9**	47.6	43.3
Long-term debt	**3,516.6**	915.9	954.6
Funded debt	**3,891.5**	969.5	999.0
Less: cash and cash equivalents	**(284.6)**	(455.2)	(370.5)
Net funded debt	**3,606.9**	514.3	628.5
Total shareholders' equity, net of non-controlling interest	**5,704.4**	3,724.8	3,633.8
Net total capital	**$ 9,311.3**	$ 4,239.1	$ 4,262.3

($ in millions)	**Feb. 1, 2014**	May 4, 2013	Feb. 2, 2013
Funded debt	**$ 3,891.5**	$ 969.5	$ 999.0
Total shareholders' equity, net of non-controlling interest	**5,704.4**	3,724.8	3,633.8
Total capital	**$ 9,595.9**	$ 4,694.3	$ 4,632.8

- Funded debt to EBITDA ratio is funded debt divided by trailing four-quarter EBITDA. Management uses this ratio to partially assess the financial condition of the Company. An increasing ratio would indicate that the Company is utilizing more debt per dollar of EBITDA generated.
- EBITDA to interest expense ratio is trailing four-quarter EBITDA divided by trailing four-quarter interest expense. Management uses this ratio to partially asses the coverage of its interest expense on financial obligations. An increasing ratio would indicate that the Company is generating more EBITDA per dollar of interest expense, resulting in greater interest coverage.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding. The following table shows the calculation of Empire's book value per common share as at February 1, 2014, May 4, 2013 and February 2, 2013:

($ in millions)	**Feb. 1, 2014**	May 4, 2013	Feb. 2, 2013
Shareholders' equity, net of minority interest	**$ 5,704.4**	$ 3,724.8	$ 3,633.8
Shares outstanding (basic)	**92.278**	67.949	67.949
Book value per common share	**$ 61.82**	$ 54.82	$ 53.48

- 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. Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. Free cash flow is reconciled to GAAP measures as reported on the consolidated statements of cash flows in the "Free Cash Flow" section of this MD&A.

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 February 1, 2014, conducted business through more than 1,500 retail stores (corporate owned and franchised) as well as more than 330 retail fuel locations, 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' seven major banners: Sobeys, IGA *extra,* Thrifty Foods, IGA, Foodland, FreshCo and Safeway.

During the 13 and 39 weeks ended February 1, 2014, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 252 and 291 stores, respectively (13 and 39 weeks ended February 2, 2013 - 10 and 37 stores). The increase is primarily due to the Canada Safeway acquisition of 213 full service grocery stores and 10 liquor stores noted below.

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. The Canada Safeway acquisition closed effective November 3, 2013.

Empire's investments and other operations segment, which as of February 1, 2014 included:

1. A 41.6 percent (39.3 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 249 retail and office properties across Canada, comprising approximately 17.6 million square feet of gross leasable area. Crombie REIT's strategy is to own and operate a portfolio of primarily high quality grocery and drug store anchored shopping centres and freestanding stores in Canada's top 36 markets; and

2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, 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 $19 billion in annual sales and approximately $12.4 billion in assets, Empire and its subsidiaries, including franchisees and affiliates, employ more than 124,000 people.

The 13 weeks ended February 1, 2014, is the first full quarter to include results from the Canada Safeway acquisition.

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 39 weeks ended February 1, 2014 and February 2, 2013. Discontinued operations are discussed and referenced throughout this MD&A. Please refer to Note 11 of the unaudited, interim condensed consolidated financial statements for the 13 and 39 weeks ended February 1, 2014 for greater detail on the operating results from discontinued operations.

CONSOLIDATED OPERATING RESULTS

The consolidated financial overview provided below reports on the financial performance for the 13 and 39 weeks ended February 1, 2014 relative to the 13 and 39 weeks ended February 2, 2013:

	13 Weeks Ended				39 Weeks Ended			
	Feb. 1, 2014		Feb. 2, 2013 [1]		**Feb. 1, 2014**		Feb. 2, 2013 [1]	
($ in millions, except per share amounts)		**% of Sales**		% of Sales		**% of Sales**		% of Sales
Sales	**$ 6,017.6**	**100.00%**	$ 4,285.5	100.00%	**$ 15,055.5**	**100.00%**	$ 13,143.4	100.00%
Adjusted EBITDA [2][3]	**277.4**	**4.61%**	201.8	4.71%	**724.6**	**4.81%**	668.2	5.08%
EBITDA [2]	**188.9**	**3.14%**	195.6	4.56%	**607.9**	**4.04%**	679.5	5.17%
Adjusted operating income [2][3]	**153.8**	**2.56%**	115.9	2.70%	**422.3**	**2.80%**	411.6	3.13%
Operating income [2]	**65.3**	**1.09%**	109.7	2.56%	**305.6**	**2.03%**	422.9	3.22%
Adjusted net earnings from continuing operations [2][3][4]	**77.3**	**1.28%**	75.8	1.77%	**245.1**	**1.63%**	261.1	1.99%
Net earnings from continuing operations [4]	**6.4**	**0.11%**	71.4	1.67%	**149.5**	**0.99%**	269.8	2.05%
Net (loss) earnings from discontinued operations	**(6.0)**	**(0.10)%**	2.7	0.06%	**85.1**	**0.57%**	3.8	0.03%
Net earnings [4]	**0.4**	**0.01%**	74.1	1.73%	**234.6**	**1.56%**	273.6	2.08%
Basic earnings per share								
Adjusted net earnings from continuing operations [2][3][4]	**$ 0.84**		$ 1.12		**$ 3.23**		$ 3.84	
Net earnings from continuing operations [4]	**$ 0.07**		$ 1.05		**$ 1.97**		$ 3.97	
Net (loss) earnings from discontinued operations	**$ (0.07)**		$ 0.04		**$ 1.12**		$ 0.06	
Net earnings [4]	**$ -**		$ 1.09		**$ 3.09**		$ 4.03	
Basic weighted average number of shares outstanding (in millions)	**92.0**		67.9		**76.0**		67.9	
Diluted earnings per share								
Adjusted net earnings from continuing operations [2][3][4]	**$ 0.84**		$ 1.11		**$ 3.22**		$ 3.84	
Net earnings from continuing operations [4]	**$ 0.07**		$ 1.05		**$ 1.96**		$ 3.96	
Net (loss) earnings from discontinued operations	**$ (0.07)**		$ 0.04		**$ 1.12**		$ 0.06	
Net earnings [4]	**$ -**		$ 1.09		**$ 3.08**		$ 4.02	
Diluted weighted average number of shares outstanding (in millions)	**92.1**		68.1		**76.2**		68.1	
Dividend per share	**$ 0.26**		$ 0.24		**$ 0.78**		$ 0.72	

(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 11 of the Company's third 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.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of Empire's consolidated financial performance for the 13 and 39 weeks ended February 1, 2014 compared to the 13 and 39 weeks ended February 2, 2013.

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 third quarter were $6.02 billion compared to $4.29 billion for the same quarter last year, an increase of $1.73 billion or 40.4 percent. This increase in sales was consistent with the sales growth from the food retailing segment.

For the 39 weeks ended February 1, 2014, consolidated sales were $15.05 billion compared to $13.14 billion in the same period last year, an increase of $1.91 billion or 14.5 percent. Sales from the food retailing segment increased $1.92 billion or 14.6 percent during this period.

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:

($ in millions)	13 Weeks Ended **Feb. 1, 2014**	13 Weeks Ended Feb. 2, 2013	($) Change	(%) Change	39 Weeks Ended **Feb. 1, 2014**	39 Weeks Ended Feb. 2, 2013	($) Change	(%) Change
Food retailing segment								
Sobeys' reported sales	**$ 6,004.4**	$ 4,274.2	$ 1,730.2	40.5%	**$ 15,016.1**	$ 13,101.3	$ 1,914.8	14.6%
Reclassification of lease revenue from owned property recorded by Sobeys	**13.5**	13.9			**41.8**	42.2		
	6,017.9	4,288.1	1,729.8	40.3%	**15,057.9**	13,143.5	1,914.4	14.6%
Elimination of sales to discontinued operations	**(0.8)**	(3.3)			**(7.1)**	(9.3)		
Empire's food retailing segmented sales	**6,017.1**	4,284.8	1,732.3	40.4%	**15,050.8**	13,134.2	1,916.6	14.6%
Investments and other operations segmented sales (1)	**0.5**	0.7	(0.2)	(28.6)%	**4.7**	9.2	(4.5)	(48.9)%
Empire consolidated sales	**$ 6,017.6**	$ 4,285.5	$ 1,732.1	40.4%	**$ 15,055.5**	$ 13,143.4	$ 1,912.1	14.5%

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

During the third quarter, Sobeys reported sales of $6.00 billion, an increase of $1.73 billion or 40.5 percent from the $4.27 billion reported in the third quarter of fiscal 2013. The growth in Sobeys' reported sales in the third quarter of fiscal 2014 was primarily the result of $1.62 billion of sales related to the Canada Safeway acquisition, combined with Sobeys' continued investment in its retail network, coupled with the continuation of sales and merchandising initiatives. Sobeys' same-store sales (sales from stores in the same locations in both reporting periods) decreased 0.2 percent from the prior year. Same-store sales were impacted by low food inflation, increased competitive square footage in the market, ongoing competitive intensity and a severe ice storm in Ontario during the third quarter of fiscal 2014. Empire's investments and other operations recorded sales of $0.5 million in the third quarter of fiscal 2014 compared to $0.7 million last year, a decrease of $0.2 million.

For the 39 weeks ended February 1, 2014, Sobeys reported sales of $15.02 billion, an increase of $1.92 billion or 14.6 percent from the $13.10 billion reported last year. Sobeys' same-store sales showed no change in the 39 weeks ended February 1, 2014 compared to the same period last year. For the 39 weeks ended February 1, 2014, sales growth was impacted by low food inflation, increased square footage in the market, heightened competitive intensity, combined with the ice storm impact as previously mentioned. Empire's investments and other operations recorded sales of $4.7 million in the 39 weeks ended February 1, 2014 compared to $9.2 million last year, a decrease of $4.5 million.

The following table shows a reconciliation of sales recorded by Sobeys for the 13 and 39 weeks ended February 1, 2014 compared to the same period in the prior year. Excluding the impact of the Canada Safeway acquisition in the third quarter of fiscal 2014, Sobeys' reported sales increased $113.3 million or 2.7 percent and $297.9 million or 2.3 percent, respectively, for the 13 and 39 weeks ended February 1, 2014 compared to the same period last year.

	13 Weeks Ended				39 Weeks Ended			
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013	($) Change	(%) Change	**Feb. 1, 2014**	Feb. 2, 2013	($) Change	(%) Change
Sobeys' reported sales	**$ 6,004.4**	$ 4,274.2	$ 1,730.2	40.5%	**$ 15,016.1**	$ 13,101.3	$ 1,914.8	14.6%
Adjustment for the impact of the Canada Safeway acquisition	**(1,616.9)**	-	(1,616.9)		**(1,616.9)**	-	(1,616.9)	
Sobeys' adjusted sales	**$ 4,387.5**	$ 4,274.2	$ 113.3	2.7%	**$ 13,399.2**	$ 13,101.3	$ 297.9	2.3%

Sales generated from Empire Theatres for the 13 and 39 weeks ended February 1, 2014 and February 2, 2013 have been recorded in discontinued operations. Please refer to Note 11 of the unaudited, interim condensed consolidated financial statements for the 13 and 39 weeks ended February 1, 2014 for greater detail on the operating results from discontinued operations.

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 February 1, 2014 decreased $6.7 million or 3.4 percent to $188.9 million from $195.6 million in the third quarter last year. EBITDA margin decreased to 3.14 percent in the third quarter of fiscal 2014 from 4.56 percent in the prior year. This decrease primarily relates to: (i) increased inventory shrinkage ("shrink") primarily associated with Sobeys' fresh retail inventory turns as well as shrink associated with the new and innovative commercial programs as part of Sobeys' strategy to help Canadians *Eat Better, Feel Better, Do Better*; (ii) a highly promotional environment; (iii) a weaker Canadian Dollar ("CAD") relative to the U.S. Dollar ("USD") which affected the CAD cost of U.S. purchases; (iv) ongoing drug regulatory reform which impacted generic prescription reimbursement rates; and (v) increased selling and administrative expenses which were primarily due to transaction costs associated with the Canada Safeway acquisition, offset by $83.2 million in EBITDA related to the Canada Safeway acquisition during the quarter.

After adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for the third quarter of fiscal 2014 was $277.4 million compared to $201.8 million last year, an increase of $75.6 million or 37.5 percent. Adjusted EBITDA margin was 4.61 percent in the third quarter of fiscal 2014 compared to 4.71 percent last year.

For the 39 weeks ended February 1, 2014, consolidated EBITDA decreased $71.6 million or 10.5 percent to $607.9 million from $679.5 million in the same period last year. EBITDA margin decreased to 4.04 percent in the 39 weeks ended February 1, 2014 from 5.17 percent in the same period last year. This decrease primarily relates to the factors affecting EBITDA in the third quarter, as mentioned above, along with lower dilution gains and lower gains on the disposal of assets recorded during the 39 weeks ended February 1, 2014 compared to the same period last year.

After adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the following table, consolidated adjusted EBITDA for the 39 weeks ended February 1, 2014 was $724.6 million compared to $668.2 million last year, an increase of $56.4 million or 8.4 percent. Adjusted EBITDA margin was 4.81 percent in the 39 weeks ended February 1, 2014 compared to 5.08 percent last year.

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
EBITDA (2)(3) (consolidated)	**$ 188.9**	$ 195.6	**$ 607.9**	$ 679.5
Adjustments:				
Transaction costs associated with the Canada Safeway acquisition	**67.7**	-	**94.6**	-
Inventory adjustment	**17.1**	-	**17.1**	-
Organizational realignment and restructuring costs	**3.7**	3.3	**12.1**	7.1
Non-operating charge from equity accounted investment (4)	**2.5**	6.8	**2.5**	6.8
Dilution losses (gains)	**0.1**	(4.6)	**(4.3)**	(16.7)
(Gain) loss on disposal of assets	**(2.6)**	0.2	**(5.3)**	(11.6)
Québec distribution network restructuring	**-**	0.5	**-**	3.1
	88.5	6.2	**116.7**	(11.3)
Adjusted EBITDA (2) (consolidated)	**$ 277.4**	$ 201.8	**$ 724.6**	$ 668.2

(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 11 of the Company's third 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.
(4) Equity earnings from Crombie REIT for the 13 and 39 weeks ended February 1, 2014 include a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 13 and 39 weeks ended February 2, 2013 include a non-recurring charge of $6.8 million relating to Crombie REIT's restated earnings.

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 February 1, 2014, Empire recorded operating income of $65.3 million, a decrease of $44.4 million from the $109.7 million recorded for the 13 weeks ended February 2, 2013. This decrease was primarily related to the factors impacting EBITDA, as mentioned.

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

- Sobeys' operating income contribution to Empire in the 13 weeks ended February 1, 2014 totalled $58.8 million, a decrease of $43.3 million from the $102.1 million recorded in the same quarter last year.
- Investments and other operations contributed operating income of $6.5 million in the 13 weeks ended February 1, 2014 compared to $7.6 million in the 13 weeks ended February 2, 2013, a decrease of $1.1 million.
    - Equity accounted earnings generated by Crombie REIT during the third quarter were $0.2 million compared to $(0.9) million in the prior year, an increase of $1.1 million.

- Real estate partnerships (Genstar) contributed operating income of $8.4 million, an increase of $1.7 million from the $6.7 million recorded in the same quarter of the prior year.
- Other operations (net of corporate expenses) contributed an operating (loss) income of $(2.1) million compared to $1.8 million last year, a decrease of $3.9 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 13 weeks ended February 1, 2014 was $153.8 million compared to $115.9 million in the third quarter last year, an increase of $37.9 million or 32.7 percent.

For the 39 weeks ended February 1, 2014, operating income equalled $305.6 million, a decrease of $117.3 million from the $422.9 million reported last year. Operating income contributed by Sobeys in the 39 weeks ended February 1, 2014 was $285.6 million, a decrease of $100.0 million from the $385.6 million reported in the same period last year. Investments and other operations' operating income in the 39 weeks ended February 1, 2014 decreased $17.3 million to $20.0 million from $37.3 million last year.

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 39 weeks ended February 1, 2014 was $422.3 million compared to $411.6 million last year, an increase of $10.7 million or 2.6 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 February 1, 2014 were $49.7 million, an increase of $37.2 million from the $12.5 million recorded in the same period last year. The increase is primarily a result of higher interest expense of $33.8 million due to increased debt levels this quarter as a result of financing for the Canada Safeway acquisition, lower total finance income of $1.8 million and higher net pension finance costs of $1.6 million.

Finance costs, net of finance income, for the 39 weeks ended February 1, 2014 were $85.6 million, an increase of $43.8 million from the $41.8 million recorded last year. The increase primarily relates to higher interest expense of $48.6 million due to increased debt levels year-to-date as a result of the financing for the Canada Safeway acquisition, partially offset by higher total finance income of $5.6 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 8.5 times at the end of the third quarter of fiscal 2014 from 16.8 times at the end of the third quarter last year as a result of increased interest expense related to the Canada Safeway acquisition, as mentioned.

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 third quarter of fiscal 2014 was 72.4 percent compared to 27.7 percent in the third quarter last year. The increase in the effective income tax rate is due to the partial non-deductibility of certain transaction costs associated with the Canada Safeway acquisition, combined with lower earnings before income taxes on which to calculate the effective tax rate. The effective income tax rate on continuing operations for the 39 weeks ended February 1, 2014 was 28.6 percent versus 27.1 percent last 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 39 weeks ended February 1, 2014 included $55.1 million and $80.1 million, net of tax, respectively, relating to transaction and finance costs associated with the Canada Safeway acquisition (13 and 39 weeks ended February 2, 2013 - $nil and $nil), along with a one-time inventory adjustment of $12.7 million, net of tax, related to the Canada Safeway acquisition (13 and 39 weeks ended February 2, 2013 - $nil and $nil).

($ in millions, except per share amounts, net of tax)	13 Weeks Ended Feb. 1, 2014	13 Weeks Ended Feb. 2, 2013 (1)	39 Weeks Ended Feb. 1, 2014	39 Weeks Ended Feb. 2, 2013 (1)
Net earnings from continuing operations by segment (2):				
Food retailing	**$ 3.9**	$ 67.7	**$ 139.4**	$ 246.8
Investments and other operations	**2.5**	3.7	**10.1**	23.0
Net earnings from continuing operations (2)	**$ 6.4**	$ 71.4	**$ 149.5**	$ 269.8
EPS from continuing operations (fully diluted)	**$ 0.07**	$ 1.05	**$ 1.96**	$ 3.96
Adjustments (3):				
Transaction costs associated with the Canada Safeway acquisition	**54.4**	-	**73.5**	-
Inventory adjustment	**12.7**	-	**12.7**	-
Organizational realignment and restructuring costs	**3.4**	2.4	**8.5**	5.2
Non-operating charge from equity account investment (4)	**1.8**	4.8	**1.8**	4.8
Finance costs associated with the Canada Safeway acquisition	**0.7**	-	**6.6**	-
Dilution losses (gains)	**0.1**	(3.3)	**(3.0)**	(11.9)
(Gain) loss on disposal of assets	**(2.2)**	0.1	**(4.5)**	(9.1)
Québec distribution network restructuring	**-**	0.4	**-**	2.3
	70.9	4.4	**95.6**	(8.7)
Adjusted net earnings from continuing operations (2)(5)	**$ 77.3**	$ 75.8	**$ 245.1**	$ 261.1
Adjusted net earnings from continuing operations by segment (2):				
Food retailing	**$ 71.7**	$ 70.6	**$ 230.3**	$ 244.7
Investments and other operations	**5.6**	5.2	**14.8**	16.4
Adjusted net earnings from continuing operations (2)(5)	**$ 77.3**	$ 75.8	**$ 245.1**	$ 261.1
Adjusted EPS from continuing operations (fully diluted)	**$ 0.84**	$ 1.11	**$ 3.22**	$ 3.84
Diluted weighted average number of shares outstanding (in millions)	**92.1**	68.1	**76.2**	68.1

(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 third quarter unaudited condensed consolidated financial statements.
(2) Net of non-controlling interest.
(3) All adjustments are net of income taxes.
(4) 13 and 39 weeks ended February 1, 2014 includes a non-recurring cost of $1.8 million, net of tax, related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; 13 and 39 weeks ended February 2, 2013 includes a non-recurring charge of $4.8 million, net of tax, relating to Crombie REIT’s restated earnings.
(5) See “Non-GAAP Financial Measures” section of this MD&A.

For the 13 weeks ended February 1, 2014, after factoring in the impact of the above-noted items, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest, of $77.3 million ($0.84 per diluted share) compared to $75.8 million ($1.11 per diluted share) in the third quarter last year. For the 39 weeks ended February 1, 2014, Empire recorded adjusted net earnings from continuing operations, net of non-controlling interest, of $245.1 million ($3.22 per diluted share) compared to $261.1 million ($3.84 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 third quarter equalled $6.4 million ($0.07 per diluted share) compared to $71.4 million ($1.05 per diluted share) in the third quarter last year. The decrease of $65.0 million is due to lower operating income and higher finance costs, net of finance income, partially offset by lower income taxes.

For the 39 weeks ended February 1, 2014, consolidated net earnings from continuing operations, net of non-controlling interest, equalled $149.5 million ($1.96 per diluted share) compared to $269.8 million ($3.96 per diluted share) last year. The decrease of $120.3 million is due to lower operating income and higher finance costs, net of finance income, partially offset by lower income taxes, as mentioned.

Net Earnings

Consolidated net earnings, net of non-controlling interest, in the third quarter equalled $0.4 million ($nil per diluted share) compared to $74.1 million ($1.09 per diluted share) in the third quarter last year. The decrease of $73.7 million is due primarily to a $65.0 million decrease in net earnings from continuing operations, net of non-controlling interest, accompanied by a decrease in net earnings from discontinued operations of $8.7 million.

Net (loss) earnings from discontinued operations in the third quarter of fiscal 2014 equalled $(6.0) million ($(0.07) per diluted share) compared to $2.7 million ($0.04 per diluted share) in the prior year, a decrease of $8.7 million, primarily as a result of a net loss from the re-measurement and disposal of assets, and from restructuring costs.

Consolidated net earnings, net of non-controlling interest, in the 39 weeks ended February 1, 2014 equalled $234.6 million ($3.08 per diluted share) compared to $273.6 million ($4.02 per diluted share) in the same period last year. The decrease of $39.0 million is due to a decrease in net earnings from continuing operations, net of non-controlling interest, of $120.3 million, partially offset by an increase in net earnings from discontinued operations of $81.3 million. Included in net earnings from discontinued operations in the 39 weeks ended February 1, 2014 was the gain, net of tax, on the sale of Empire Theatres' assets of $104.2 million.

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 39 weeks ended February 1, 2014 compared to the 13 and 39 weeks ended February 2, 2013:

($ in millions, except per share amounts, net of tax)	13 Weeks Ended Feb. 1, 2014	13 Weeks Ended Feb. 2, 2013 [1]	($) Change	39 Weeks Ended Feb. 1, 2014	39 Weeks Ended Feb. 2, 2013 [1]	($) Change
Net earnings from continuing operations by segment [2]:						
Food retailing	**$ 3.9**	$ 67.7	$ (63.8)	**$ 139.4**	$ 246.8	$ (107.4)
Investments and other operations	**2.5**	3.7	(1.2)	**10.1**	23.0	(12.9)
Net earnings from continuing operations [2]	**$ 6.4**	$ 71.4	$ (65.0)	**$ 149.5**	$ 269.8	$ (120.3)
EPS from continuing operations (fully diluted)	**$ 0.07**	$ 1.05	$ (0.98)	**$ 1.96**	$ 3.96	$ (2.00)
Net (loss) earnings from discontinued operations	**(6.0)**	2.7	(8.7)	**85.1**	3.8	81.3
Net earnings (loss) by segment [2]:						
Food retailing	**$ 3.9**	$ 67.7	$ (63.8)	**$ 139.4**	$ 246.8	$ (107.4)
Investments and other operations	**(3.5)**	6.4	(9.9)	**95.2**	26.8	68.4
Net earnings [2]	**$ 0.4**	$ 74.1	$ (73.7)	**$ 234.6**	$ 273.6	$ (39.0)
EPS (fully diluted)	**$ -**	$ 1.09	$ (1.09)	**$ 3.08**	$ 4.02	$ (0.94)

(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 third 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
	Q3 (13 Weeks) Feb. 1, 2014	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
Sales	**$ 6,017.6**	$ 4,428.5	$ 4,609.4	$ 4,257.4	$ 4,285.5	$ 4,348.8	$ 4,509.1	$ 4,073.8
Operating income (2)	**65.3**	106.4	133.9	150.3	109.7	138.2	175.0	135.5
Net earnings from continuing operations (3)	**6.4**	60.5	82.6	102.5	71.4	90.3	108.1	91.4
Net (loss) earnings from discontinued operations	**(6.0)**	108.7	(17.6)	3.4	2.7	1.6	(0.5)	-
Net earnings (3)	**$ 0.4**	$ 169.2	$ 65.0	$ 105.9	$ 74.1	$ 91.9	$ 107.6	$ 91.4
Per share information, basic								
Net earnings from continuing operations (3)	**$ 0.07**	$ 0.89	$ 1.22	$ 1.51	$ 1.05	$ 1.33	$ 1.59	$ 1.35
Net (loss) earnings from discontinued operations	**(0.07)**	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
Basic weighted average number of shares outstanding (in millions)	**92.0**	68.0	67.9	67.9	67.9	67.9	67.9	67.9
Per share information, diluted								
Net earnings from continuing operations (3)	**$ 0.07**	$ 0.89	$ 1.21	$ 1.51	$ 1.05	$ 1.33	$ 1.59	$ 1.34
Net (loss) earnings from discontinued operations	**(0.07)**	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
Diluted weighted average number of shares outstanding (in millions)	**92.1**	68.2	68.2	68.1	68.1	68.1	68.0	68.0

(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 11 of the Company's third 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 and product and services innovation. The 13 weeks ended February 1, 2014 is the first quarter to include sales from the Canada Safeway acquisition of 213 full service grocery stores, 200 in-store pharmacies, 62 co-located fuel stations and 10 liquor stores. Sales were also impacted by 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 as of February 1, 2014, conducted business through more than 1,500 retail stores (corporate owned and franchised) as well as more than 330 retail fuel locations, operating in every province and in over 800 communities across Canada.

Sobeys closed the Canada Safeway acquisition effective November 3, 2013. As a condition of the regulatory clearance from the Competition Bureau for the Asset Purchase Agreement between Sobeys and Safeway Inc. and its subsidiaries, Sobeys is required to divest 23 retail stores. Subsequent to the end of the third quarter, on February 13, 2014, Sobeys announced that it has entered into binding purchase agreements with Overwaitea Food Group LP and Federated Co-operatives Limited to purchase 22 of the 23 retail stores that are required to be divested. In addition to the required divestitures, Sobeys has agreed to sell an additional seven stores in British Columbia comprised of both Safeway and Sobeys locations. The agreements with Overwaitea Food Group LP and Federated Co-operatives Limited have received approval from the Competition Bureau. The sales are expected to occur during the Company's fourth quarter of fiscal 2014 and the first quarter of fiscal 2015. In addition, Sobeys has signed a binding letter of intent with another retailer for the sale of one remaining retail store which is also required to be divested as part of the Canada Safeway acquisition.

For the retail stores acquired as part of the Canada Safeway acquisition which will be divested, assets and liabilities of $382.1 million have been included in assets held for sale as at February 1, 2014. In addition, $63.1 million in assets related to the Sobeys retail stores to be divested have been included in assets held for sale as of February 1, 2014 which includes inventory of $8.9 million, property and equipment of $31.7 million and goodwill of $22.5 million.

During the 13 and 39 weeks ended February 1, 2014, Sobeys incurred pre-tax acquisition costs of $67.7 million and $94.6 million, respectively, relating to external legal, consulting, due diligence, financial advisory and other closing costs. These costs have been included in selling and administrative expenses in the condensed consolidated statements of earnings.

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.

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 39 weeks ended February 2, 2013, Sobeys incurred $nil and $8.7 million, respectively, of pre-tax costs related to these initiatives.

Following the close of the Canada Safeway acquisition, Sobeys began the process of integrating the acquired business with Sobeys' current operations. For the 13 and 39 weeks ended February 1, 2014, Sobeys recorded pre-tax integration costs of $2.5 million and $2.6 million, respectively, which have been recognized in selling and administrative expenses in the unaudited, interim condensed consolidated statement of earnings.

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 39 weeks ended February 2, 2013, Sobeys recorded pre-tax severance costs associated with the distribution network in Québec of $0.5 million and $3.1 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 39 weeks ended February 2, 2013, Sobeys recorded pre-tax costs associated with this initiative of $3.3 million and $7.1 million, respectively. During the third quarter of fiscal 2014, Sobeys performed additional organizational realignments and recorded pre-tax costs of $3.0 million.

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)		($)	39 Weeks Ended (1)		($)
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (2)	Change	**Feb. 1, 2014**	Feb. 2, 2013 (2)	Change
Sales	**$ 6,017.1**	$ 4,284.8	$ 1,732.3	**$ 15,050.8**	$ 13,134.2	$ 1,916.6
Adjusted EBITDA (3)(4)	**267.6**	192.4	75.2	**697.6**	639.0	58.6
EBITDA (3)	**182.3**	188.4	(6.1)	**587.6**	641.1	(53.5)
Adjusted operating income (3)(4)	**144.1**	106.1	38.0	**395.6**	383.5	12.1
Operating income (3)	**58.8**	102.1	(43.3)	**285.6**	385.6	(100.0)
Adjusted net earnings (3)(4)(5)	**71.7**	70.6	1.1	**230.3**	244.7	(14.4)
Net earnings (5)	**3.9**	67.7	(63.8)	**139.4**	246.8	(107.4)

(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 third 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 $6.02 billion for the 13 weeks ended February 1, 2014, an increase of $1.73 billion or 40.4 percent over the same quarter last year. The growth in Sobeys' reported sales in the third quarter of fiscal 2014 was primarily the result of $1.62 billion of sales related to the Canada Safeway acquisition, combined with Sobeys' continued investment in its retail network, coupled with the continuation of sales and merchandising initiatives. Sobeys' same-store sales decreased 0.2 percent from the prior year. Same-store sales were impacted by low food inflation, increased competitive square footage in the market, ongoing competitive intensity and a severe ice storm in Ontario during the third quarter of fiscal 2014.

For the 39 weeks ended February 1, 2014, Empire's food retailing segment recorded sales of $15.05 billion, an increase of $1.92 million or 14.6 percent from the same period last year. Sobeys' same-store sales showed no change in the 39 weeks ended February 1, 2014 compared to the same period last year. For the 39 weeks ended February 1, 2014, sales growth was impacted by low food inflation, increased square footage in the market, heightened competitive intensity, combined with the ice storm impact as previously mentioned.

The following table shows a reconciliation of sales recorded by Sobeys for the 13 and 39 weeks ended February 1, 2014 compared to the same period in the prior year. Excluding the impact of the Canada Safeway acquisition in the third quarter of fiscal 2014, Sobeys' reported sales increased $113.3 million or 2.7 percent and $297.9 million or 2.3 percent, respectively, for the 13 and 39 weeks ended February 1, 2014 compared to the same period last year.

	13 Weeks Ended				39 Weeks Ended			
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013	($) Change	(%) Change	**Feb. 1, 2014**	Feb. 2, 2013	($) Change	(%) Change
Sobeys' reported sales	**$ 6,004.4**	$ 4,274.2	$ 1,730.2	40.5%	**$ 15,016.1**	$ 13,101.3	$ 1,914.8	14.6%
Adjustment for the impact of the Canada Safeway acquisition	**(1,616.9)**	-	(1,616.9)		**(1,616.9)**	-	(1,616.9)	
Sobeys' adjusted sales	**$ 4,387.5**	$ 4,274.2	$ 113.3	2.7%	**$ 13,399.2**	$ 13,101.3	$ 297.9	2.3%

Gross Profit

Sobeys recorded gross profit for the 13 weeks ended February 1, 2014 of $1,471.8 million, an increase of $491.6 million or 50.2 percent compared to $980.2 million in the same quarter last year. For the third quarter, gross margin increased 158 basis points to 24.51 percent compared to 22.93 percent for the quarter ended February 2, 2013. The increase in gross profit and gross margin is largely a result of a $483.3 million gross profit contribution related to the Canada Safeway acquisition, which is net of a one-time inventory adjustment of $17.1 million, and $6.3 million of cost reductions as a result of synergies realized during the quarter related to the acquisition. The one-time inventory adjustment is a result of Sobeys' estimated preliminary fair value using historical financial information from Canada Safeway, after considering a reduction for selling costs and profit margins on selling efforts. The amount was expensed in the current quarter as a result of the sale of the applicable inventory.

Excluding the impact related to Canada Safeway, gross margin would have been 22.53 percent, a decrease of 40 basis points compared to the prior year. Overall gross profit and gross margin were impacted in the quarter by the following factors: (i) increased shrink primarily associated with Sobeys' fresh retail inventory turns as well as shrink associated with the new and innovative commercial programs as part of Sobeys' strategy to help Canadians *Eat Better, Feel Better, Do Better*; (ii) a highly promotional environment; (iii) a weaker CAD relative to the USD which affected the CAD cost of U.S. purchases; and (iv) ongoing drug regulatory reform which impacted generic prescription reimbursement rates.

Gross profit recorded by Sobeys for the 39 weeks ended February 1, 2014 was $3,502.9 million, an increase of $485.7 million or 16.1 percent compared to $3,017.2 million recorded in the same period last year. The increase is largely the result of gross profit of $483.3 million related to the Canada Safeway acquisition. For the 39 weeks ended February 1, 2014, Sobeys' gross margin increased 30 basis points to 23.33 percent compared to 23.03 percent in the same period in fiscal 2013. Excluding the impact related to Canada Safeway, gross margin would have been 22.54 percent, a decrease of 49 basis points compared to the prior year. The decrease in comparable gross margin, excluding Canada Safeway, for the 13 and 39 weeks ended February 1, 2014, is largely the result of the factors described above.

EBITDA

Sobeys contributed EBITDA to Empire for the third quarter of fiscal 2014 of $182.3 million (3.03 percent of sales) compared to $188.4 million (4.40 percent of sales) for the same period last year, a decrease of $6.1 million or 3.2 percent. EBITDA was impacted by the factors affecting gross margin, as mentioned, and by increased selling and administrative expenses which were primarily due to transaction costs associated with the Canada Safeway acquisition, offset by $83.2 million in EBITDA related to the Canada Safeway acquisition during the quarter. After adjusting for 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 February 1, 2014 was $267.6 million (4.45 percent of sales) compared to $192.4 million (4.49 percent of sales) in the same quarter last year, an increase of $75.2 million or 39.1 percent.

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
EBITDA (2) (contributed by Sobeys)	**$ 182.3**	$ 188.4	**$ 587.6**	$ 641.1
Adjustments:				
Transaction costs associated with the Canada Safeway acquisition	**67.7**	-	**94.6**	-
Inventory adjustment	**17.1**	-	**17.1**	-
Organizational realignment costs	**3.0**	3.3	**3.0**	7.1
Dilution gains	**(0.3)**	-	**(0.6)**	(0.7)
(Gain) loss on disposal of assets	**(2.2)**	0.2	**(4.1)**	(11.6)
Québec distribution network restructuring	**-**	0.5	**-**	3.1
	85.3	4.0	**110.0**	(2.1)
Adjusted EBITDA (2)	**$ 267.6**	$ 192.4	**$ 697.6**	$ 639.0

(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 third quarter unaudited condensed consolidated financial statements.

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

For the 39 weeks ended February 1, 2014, Sobeys contributed EBITDA to Empire of $587.6 million (3.90 percent of sales) compared to $641.1 million (4.88 percent of sales) in the comparative period in fiscal 2013, a decrease of $53.5 million or 8.3 percent. This decrease primarily relates to the factors affecting gross margin, along with the transaction costs, partially offset by EBITDA related to the Canada Safeway acquisition, as mentioned, 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 preceding table, Sobeys' adjusted EBITDA contribution to Empire for the 39 weeks ended February 1, 2014 was $697.6 million (4.63 percent of sales) compared to $639.0 million (4.87 percent of sales) in the same period last year, an increase of $58.6 million or 9.2 percent.

Operating Income

Sobeys' operating income contribution to Empire for the 13 weeks ended February 1, 2014 was $58.8 million (0.98 percent of sales) compared to $102.1 million (2.38 percent of sales) in the same period last year, a decrease of $43.3 million. This decrease was primarily related to the factors impacting gross margin, and the $67.7 million in transaction costs related to the Canada Safeway acquisition, as mentioned above. These negative factors were partially offset by $48.8 million of operating income directly attributable to the inclusion of Canada Safeway. 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 February 1, 2014 of $144.1 million (2.39 percent of sales) compared to $106.1 million (2.48 percent of sales) in the same period last year, an increase of $38.0 million or 35.8 percent.

For the 39 weeks ended February 1, 2014, Sobeys' operating income contribution to Empire was $285.6 million (1.90 percent of sales) compared to $385.6 million (2.94 percent of sales) in the same period last year, a decrease of $100.0 million. This decrease was primarily a result of the same factors that influenced quarterly operating income. 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 39 weeks ended February 1, 2014 of $395.6 million (2.63 percent of sales) compared to $383.5 million (2.92 percent of sales) in the same period last year, an increase of $12.1 million or 3.2 percent.

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
Operating income (2) (contributed by Sobeys)	**$ 58.8**	$ 102.1	**$ 285.6**	$ 385.6
Adjustments:				
Transaction costs associated with the Canada Safeway acquisition	**67.7**	-	**94.6**	-
Inventory adjustment	**17.1**	-	**17.1**	-
Organizational realignment costs	**3.0**	3.3	**3.0**	7.1
Dilution gains	**(0.3)**	-	**(0.6)**	(0.7)
(Gain) loss on disposal of assets	**(2.2)**	0.2	**(4.1)**	(11.6)
Québec distribution network restructuring	**-**	0.5	**-**	3.1
	85.3	4.0	**110.0**	(2.1)
Adjusted operating income (2)	**$ 144.1**	$ 106.1	**$ 395.6**	$ 383.5

(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 third 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 February 1, 2014 compared to $70.6 million in the same period last year, an increase of $1.1 million or 1.6 percent.

For the 39 weeks ended February 1, 2014, Sobeys contributed adjusted net earnings, net of non-controlling interest, of $230.3 million to Empire compared to $244.7 million in the same period last year, a decrease of $14.4 million or 5.9 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		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
Net earnings (contributed by Sobeys) (2)	**$ 3.9**	$ 67.7	**$ 139.4**	$ 246.8
Adjustments (3):				
Transaction costs associated with the Canada Safeway acquisition	**54.4**	-	**73.5**	-
Inventory adjustment	**12.7**	-	**12.7**	-
Organizational realignment costs	**2.2**	2.4	**2.2**	5.2
Finance costs associated with the Canada Safeway acquisition	**0.7**	-	**6.6**	-
Dilution gains	**(0.2)**	-	**(0.4)**	(0.5)
(Gain) loss on disposal of assets	**(2.0)**	0.1	**(3.7)**	(9.1)
Québec distribution network restructuring	**-**	0.4	**-**	2.3
	67.8	2.9	**90.9**	(2.1)
Adjusted net earnings (2)(4)	**$ 71.7**	$ 70.6	**$ 230.3**	$ 244.7

(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 third 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.

Net Earnings

Sobeys contributed net earnings, net of non-controlling interest, of $3.9 million to Empire in the third quarter of fiscal 2014, a decrease of $63.8 million from the $67.7 million recorded in the same quarter of the prior year. This decrease is primarily the result of the previously mentioned sales and gross margin impacts, combined with transaction and finance costs related to the Canada Safeway acquisition. Net earnings before a one-time inventory adjustment of $12.7 million related to Canada Safeway operations for the 13 weeks ended February 1, 2014 were $36.5 million.

For the 39 weeks ended February 1, 2014, Sobeys contributed net earnings, net of non-controlling interest, of $139.4 million to Empire, a decrease of $107.4 million from the $246.8 million recorded in the same period last year. Net earnings related to Canada Safeway operations for the 39 weeks ended February 1, 2014 were $36.5 million.

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 41.6 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).

During the third quarter of fiscal 2014, GDC Investments 5, L.P., which is being accounted for as part of real estate partnerships (Genstar), was dissolved.

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:

	13 Weeks Ended			39 Weeks Ended		
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013	($) Change	**Feb. 1, 2014**	Feb. 2, 2013	($) Change
Sales [1]	**$ 0.5**	$ 0.7	$ (0.2)	**$ 4.7**	$ 9.2	$ (4.5)
Adjusted EBITDA [2][3]	**9.8**	9.4	0.4	**27.0**	29.2	(2.2)
EBITDA [1][2]	**6.6**	7.2	(0.6)	**20.3**	38.4	(18.1)
Operating income (loss) [2]						
Crombie REIT [4][5]	**0.2**	(0.9)	1.1	**12.3**	8.8	3.5
Real estate partnerships [6]	**8.4**	6.7	1.7	**19.5**	15.9	3.6
Other operations, net of corporate expenses [1][7]	**(2.1)**	1.8	(3.9)	**(11.8)**	12.6	(24.4)
	6.5	7.6	(1.1)	**20.0**	37.3	(17.3)
Adjusted net earnings from continuing operations [2][3]	**5.6**	5.2	0.4	**14.8**	16.4	(1.6)
Net earnings from continuing operations	**2.5**	3.7	(1.2)	**10.1**	23.0	(12.9)
Net (loss) earnings from discontinued operations	**(6.0)**	2.7	(8.7)	**85.1**	3.8	81.3
Net (loss) earnings	**(3.5)**	6.4	(9.9)	**95.2**	26.8	68.4

(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) 41.6 percent equity accounted interest in Crombie REIT (February 2, 2013 - 42.9 percent interest).
(5) Equity earnings from Crombie REIT for the 13 and 39 weeks ended February 1, 2014 include a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 13 and 39 weeks ended February 2, 2013 include a non-recurring charge of $6.8 million relating to Crombie REIT's restated earnings.
(6) Interests in Genstar.
(7) 13 and 39 weeks ended February 1, 2014 included organizational realignment and restructuring costs of $0.7 million and $9.1 million, respectively; dilution (losses) gains of $(0.4) million and $3.7 million, respectively; and a gain on the disposal of assets of $0.4 million and $1.2 million, respectively (13 and 39 weeks ended February 2, 2013 - organizational realignment and restructuring costs of $nil and $nil; dilution gains of $4.6 million and $16.0 million; and a gain on the disposal of assets of $nil and $nil).

At February 1, 2014, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	February 1, 2014		
($ in millions)	**Fair Value**	**Carrying Value**	**Unrealized Gain**
Investment in Crombie REIT	**$ 681.3**	**$ 336.5**	**$ 344.8**
Investment in Genstar [(1)]	**215.4**	**215.4**	**-**
Canadian Digital Cinema Partnership [(1)]	**9.8**	**9.8**	**-**
Other investments [(1)(2)]	**24.5**	**24.5**	**-**
	$ 931.0	**$ 586.2**	**$ 344.8**

	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

	February 2, 2013		
($ in millions)	Fair Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	$ 579.5	$ 203.8	$ 375.7
Investment in Genstar [(1)]	197.5	197.5	-
Canadian Digital Cinema Partnership [(1)]	9.1	9.1	-
Other investments [(1)(2)]	36.7	36.7	-
	$ 822.8	$ 447.1	$ 375.7

(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 $24.3 million (February 2, 2013 - $25.0 million). During the first quarter of fiscal 2013, the Company purchased $24.0 million of Debentures, which as at February 1, 2014, had a market value of $24.3 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 $0.5 million in the third quarter ended February 1, 2014 versus $0.7 million in the third quarter last year, a decrease of $0.2 million. For the 39 weeks ended February 1, 2014, investments and other operations' sales totalled $4.7 million compared to $9.2 million in the same period last year, a decrease of $4.5 million. Sales generated from Empire Theatres have been recorded in discontinued operations. Please refer to Note 11 of the unaudited, interim condensed consolidated financial statements for the 13 and 39 weeks ended February 1, 2014 for greater detail on the operating results from discontinued operations.

EBITDA

Investments and other operations contributed EBITDA to Empire for the third quarter ended February 1, 2014 of $6.6 million compared to $7.2 million in the same period last year, a decrease of $0.6 million. The 13 weeks ended February 1, 2014 included a non-operating charge from an equity accounted investment of $2.5 million, organizational realignment and restructuring costs of $0.7 million and dilution losses (gains) of $0.4 million, respectively (13 weeks ended February 2, 2013 - $6.8 million, $nil and $(4.6) million). After adjusting for these and other items which are considered not indicative of underlying business operating performance, as presented in the following table, investments and other operations' adjusted EBITDA for the third quarter was $9.8 million compared to $9.4 million last year, an increase of $0.4 million or 4.3 percent.

For the 39 weeks ended February 1, 2014, investments and other operations contributed EBITDA to Empire of $20.3 million compared to $38.4 million last year, a decrease of $18.1 million. The 39 weeks ended February 1, 2014 included a non-operating charge from an equity accounted investment of $2.5 million, organizational realignment and restructuring costs of $9.1 million and dilution gains of $3.7 million, respectively (39 weeks ended February 2, 2013 - $6.8 million, $nil and $16.0 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 39 weeks ended February 1, 2014 was $27.0 million compared to $29.2 million last year, a decrease of $2.2 million or 7.5 percent.

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013	**Feb. 1, 2014**	Feb. 2, 2013
EBITDA [1][2] (investments and other operations)	**$ 6.6**	$ 7.2	**$ 20.3**	$ 38.4
Adjustments:				
Non-operating charge from equity accounted investment [3]	**2.5**	6.8	**2.5**	6.8
Organizational realignment and restructuring costs	**0.7**	-	**9.1**	-
Dilution losses (gains)	**0.4**	(4.6)	**(3.7)**	(16.0)
Gain on disposal of assets	**(0.4)**	-	**(1.2)**	-
	3.2	2.2	**6.7**	(9.2)
Adjusted EBITDA [1]	**$ 9.8**	$ 9.4	**$ 27.0**	$ 29.2

(1) See "Non-GAAP Financial Measures" section of this MD&A.
(2) EBITDA generated from Empire Theatres has been recorded in discontinued operations.
(3) Equity earnings from Crombie REIT for the 13 and 39 weeks ended February 1, 2014 include a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 13 and 39 weeks ended February 2, 2013 include a non-recurring charge of $6.8 million relating to Crombie REIT's restated earnings.

Operating Income

Investments and other operations contributed operating income of $6.5 million in the 13 weeks ended February 1, 2014 versus $7.6 million in the same period last year, a decrease of $1.1 million. The contributors to operating income in the third quarter of fiscal 2014 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $0.2 million in the 13 weeks ended February 1, 2014, up $1.1 million from the $(0.9) million recorded in the 13 weeks ended February 2, 2013. The increase was primarily driven by increased property net operating income due to acquisitions and redevelopment activity, along with a non-operating charge of $6.8 million incurred in the third quarter of fiscal 2013 relating to Crombie REIT's restated earnings, partially offset by non-recurring costs of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were $8.4 million in the 13 weeks ended February 1, 2014, an increase of $1.7 million compared to $6.7 million recorded in the same period last year, primarily as a result of stronger lot sales.
- Other operations, net of corporate expenses, contributed an operating (loss) income of $(2.1) million in the third quarter of fiscal 2014, down $3.9 million from the $1.8 million recorded in the same period last year. The 13 weeks ended February 1, 2014 included organizational realignment and restructuring costs of $0.7 million, dilution (losses) gains of $(0.4) million, and a gain on the disposal of assets of $0.4 million (13 weeks ended February 2, 2013 - $nil, $4.6 million, and $nil, respectively).

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 February 1, 2014 of $9.7 million compared to $9.8 million in 13 weeks ended February 2, 2013, a decrease of $0.1 million or 1.0 percent.

For the 39 weeks ended February 1, 2014, investments and other operations contributed operating income of $20.0 million compared to $37.3 million in the same period last year, a decrease of $17.3 million. The contributors to operating income in the 39 weeks ended February 1, 2014 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $12.3 million in the 39 weeks ended February 1, 2014, up $3.5 million from the $8.8 million recorded in the same period last year.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were $19.5 million in the 39 weeks ended February 1, 2014, an increase of $3.6 million compared to $15.9 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 an operating (loss) income of $(11.8) million in the 39 weeks ended February 1, 2014, down $24.4 million from the $12.6 million recorded in the same period last year. The 39 weeks ended February 1, 2014 included organizational realignment and restructuring costs of $9.1 million, dilution gains of $3.7 million, and a gain on the disposal of assets of $1.2 million (39 weeks ended February 2, 2013 - $nil, $16.0 million, and $nil, respectively).

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 39 weeks ended February 1, 2014 of $26.7 million compared to $28.1 million last year, a decrease of $1.4 million or 5.0 percent.

Adjusted Net Earnings from Continuing Operations

Investments and other operations contributed adjusted net earnings from continuing operations of $5.6 million for the 13 weeks ended February 1, 2014 compared to a contribution of $5.2 million last year, an increase of $0.4 million. Included in net earnings from continuing operations in the 13 weeks ended February 1, 2014 was a non-operating charge from an equity accounted investment, net of tax, of $1.8 million, organizational realignment and restructuring costs, net of tax, of $1.2 million and dilution losses (gains), net of tax, of $0.3 million, respectively (13 weeks ended February 2, 2013 - $4.8 million, $nil and $(3.3) million).

Investments and other operations contributed adjusted net earnings from continuing operations of $14.8 million for the 39 weeks ended February 1, 2014 compared to a contribution of $16.4 million last year, a decrease of $1.6 million. Included in net earnings from continuing operations in the 39 weeks ended February 1, 2014 were organizational realignment and restructuring costs, net of tax, of $6.3 million, a non-operating charge from an equity accounted investment, net of tax, of $1.8 million and dilution gains, net of tax, of $2.6 million, respectively (39 weeks ended February 2, 2013 - $nil, $4.8 million and $11.4 million).

The following table adjusts reported net earnings from continuing operations for items which are considered not indicative of underlying business operating performance:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013	**Feb. 1, 2014**	Feb. 2, 2013
Net earnings from continuing operations (investments and other operations)	**$ 2.5**	$ 3.7	**$ 10.1**	$ 23.0
Adjustments [(1)]:				
Non-operating charge from equity accounted investment [(2)]	**1.8**	4.8	**1.8**	4.8
Organizational realignment and restructuring costs	**1.2**	-	**6.3**	-
Dilution losses (gains)	**0.3**	(3.3)	**(2.6)**	(11.4)
Gain on disposal of assets	**(0.2)**	-	**(0.8)**	-
	3.1	1.5	**4.7**	(6.6)
Adjusted net earnings from continuing operations [(3)]	**$ 5.6**	$ 5.2	**$ 14.8**	$ 16.4

(1) All adjustments are net of income taxes.

(2) Equity earnings from Crombie REIT for the 13 and 39 weeks ended February 1, 2014 include a non-recurring cost of $1.8 million, net of tax, related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition; equity earnings from Crombie REIT for the 13 and 39 weeks ended February 2, 2013 include a non-recurring charge of $4.8 million, net of tax, relating to Crombie REIT's restated earnings.

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

Net Earnings from Continuing Operations

During the 13 weeks ended February 1, 2014, investments and other operations contributed $2.5 million to Empire's consolidated net earnings from continuing operations compared to a contribution of $3.7 million in the same period last year. The $1.2 million decrease is primarily attributed to lower dilution gains, net of tax, of $3.6 million, organizational realignment and restructuring costs, net of tax, of $1.2 million, partially offset by a lower non-operating charge from an equity accounted investment of $3.0 million.

For the 39 weeks ended February 1, 2014, investments and other operations contributed $10.1 million to Empire's consolidated net earnings from continuing operations compared to a contribution of $23.0 million in the same period last year. The $12.9 million decrease is primarily attributed to lower dilution gains, net of tax, of $8.8 million, organizational realignment and restructuring costs, net of tax, of $6.3 million, partially offset by a lower non-operating charge from an equity accounted investment of $3.0 million.

Net Earnings

Investments and other operations contributed $(3.5) million to Empire's consolidated net earnings in the third quarter of fiscal 2014 compared to $6.4 million in the same period last year. The $9.9 million decrease is primarily attributed to a decrease in net earnings from discontinued operations of $8.7 million accompanied by a decrease in net earnings from continuing operations of $1.2 million.

For the 39 weeks ended February 1, 2014, investments and other operations contributed $95.2 million to Empire's consolidated net earnings compared to $26.8 million in the same period last year. The $68.4 million increase is primarily related to higher net earnings from discontinued operations of $81.3 million, which includes the gain, net of tax, on the sale of Empire Theatres' assets of $104.2 million. Partially offsetting this increase were lower net earnings from continuing operations of $12.9 million.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

The acquisition of Canada Safeway effective November 3, 2013, resulted in a significant change to the capital structure of the Company as a result of capital stock issuance of $1.84 billion and long-term debt issuance of $3.30 billion. The financial condition measures are presented in the table below.

($ in millions, except per share and ratio calculations)	**Feb. 1, 2014**	May 4, 2013 (1)	Feb. 2, 2013 (1)
Shareholders' equity, net of non-controlling interest	**$ 5,704.4**	$ 3,724.8	$ 3,633.8
Book value per common share (2)	**$ 61.82**	$ 54.82	$ 53.48
Bank indebtedness	**$ -**	$ 6.0	$ 1.1
Long-term debt, including current portion	**$ 3,891.5**	$ 963.5	$ 997.9
Funded debt to total capital (2)	**40.6%**	20.7%	21.6%
Net funded debt to net total capital (2)	**38.7%**	12.1%	14.7%
Funded debt to EBITDA (2)(3)(4)	**4.6x**	1.1x	1.1x
EBITDA to interest expense (2)(3)(5)	**8.5x**	17.9x	16.8x
Current assets to current liabilities (2)	**1.1x**	1.0x	1.0x
Total assets	**$ 12,420.7**	$ 7,140.4	$ 6,958.9

(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 third quarter unaudited condensed consolidated financial statements.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Ratios for February 1, 2014 and May 4, 2013 exclude EBITDA and interest expense relating to discontinued operations.
(4) Calculation uses trailing four-quarter EBITDA.
(5) Calculation uses trailing four-quarter EBITDA and interest expense.

Shareholders' Equity

The increase in shareholders' equity of $2.07 billion from the third quarter of fiscal 2013 largely reflects the increase in the Company's capital stock from the $1.84 billion offering of Subscription Receipts in July 2013 which were exchanged into Non-Voting Class A shares on November 4, 2013, and growth in retained earnings. Book value per common share was $61.82 at February 1, 2014 compared to $58.23 at the end of the prior quarter and $53.48 last year.

The Company's share capital on February 1, 2014 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	58,016,876	2,100.3
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 2,107.9

There were 58,016,876 Non-Voting Class A and 34,260,763 Class B common shares outstanding at February 1, 2014 for a total of 92,277,639 shares outstanding. This compares to 33,709,996 Non-Voting Class A and 34,260,763 Class B common shares for a total of 67,970,759 shares outstanding at November 2, 2013. There were 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 May 4, 2013 and February 2, 2013. During the quarter ended February 1, 2014, Empire issued an additional 24,265,000 Non-Voting Class A shares upon the exchange of Subscription Receipts and issued 41,880 Non-Voting Class A shares from the exercise of options.

Empire had 1,035,212 options outstanding at February 1, 2014 compared to 1,007,061 options outstanding at November 2, 2013, and 684,128 options outstanding at May 4, 2013 and February 2, 2013. During the quarter ended February 1, 2014, 421,704 options were granted, 279,364 options were cancelled and 114,189 options were exercised. For the 13 weeks ended February 2, 2013, no options were granted, exercised or cancelled.

On July 31, 2013, in connection with Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway, the Company announced that it closed its previously announced offering of 21.1 million Subscription Receipts at a price of $76.00 per Subscription Receipt, along with the syndicate of underwriters exercising in full their over-allotment option of 3.165 million Subscription Receipts, for a total of 24.265 million Subscription Receipts. The total gross proceeds were approximately $1,844.1 million. Upon closing of the Canada Safeway acquisition, the 24.265 million Subscription Receipts were exchanged for Non-Voting Class A shares and net proceeds of $1,812.0 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.

Subsequent to the end of the third quarter of fiscal 2014, on February 24, 2014, 76,751 options were exercised resulting in an additional 32,608 Non-Voting Class A shares being issued. As at March 12, 2014, the Company had Non-Voting Class A and Class B common shares outstanding of 58,049,484 and 34,260,763, respectively, as well as 958,461 options to acquire in aggregate 958,461 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $24.0 million in the third quarter of fiscal 2014 ($0.26 per share) versus $16.3 million ($0.24 per share) in the third 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 February 1, 2014 was $3,891.5 million, representing 100.0 percent of Empire's total funded debt.

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

($ in millions)	**Feb. 1, 2014**	May 4, 2013	Feb. 2, 2013
Bank indebtedness			
Investments and other operations	**$ -**	$ 6.0	$ 1.1
Long-term debt (including current portion)			
Food retailing	**3,772.9**	765.2	764.7
Investments and other operations	**118.6**	198.3	233.2
Total funded debt (1)	**$ 3,891.5**	$ 969.5	$ 999.0

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

Consolidated funded debt was $3,891.5 million at February 1, 2014 compared to $999.0 million at February 2, 2013, an increase of $2,892.5 million. The increase in consolidated funded debt from the prior year was a result of the financing associated with the Canada Safeway acquisition, as described below.

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. Upon closing of the Canada Safeway acquisition, the net proceeds of $987.1 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.

Pursuant to an 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 at Sobeys' option 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.

On November 4, 2013, the RT Facility replaced Sobeys' previous 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 and have been offset against the long-term debt amounts for presentation purposes. As of February 1, 2014, Sobeys had issued $83.0 million in letters of credit against the revolving term credit facility (May 4, 2013 - $80.6 million).

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

The ratio of funded debt to total capital has increased 19.0 percentage points to 40.6 percent from 21.6 percent at the end of the third quarter last year. The increase in funded debt was primarily a result of the financing associated with the Canada Safeway acquisition which closed during the third quarter of fiscal 2014 and was offset by growth in retained earnings compared to the same period last year and the issuance of capital stock.

Empire's funded debt to EBITDA ratio increased to 4.6 times at February 1, 2014 compared to 1.1 times at the beginning of the fiscal year and the third quarter last year, largely as a result of the increase in funded debt, as mentioned, accompanied by a decline in trailing four-quarter EBITDA ($846.4 million at February 1, 2014 versus $919.7 million at February 2, 2013).

Empire's EBITDA to interest expense ratio decreased from 16.8 times recorded at February 2, 2013 to 8.5 times at February 1, 2014. The decrease from fiscal 2013 is primarily due to an increase in trailing four-quarter interest expense ($99.9 million at February 1, 2014 versus $54.6 million at February 2, 2013) from higher funded debt levels associated with the Canada Safeway acquisition accompanied by a 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 39 weeks ended February 1, 2014 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 its various contractual counterparties on an ongoing basis and will take corrective actions as deemed appropriate should a counterparty's credit profile change materially.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 CAD/USD to mitigate the currency risk associated with a USD denominated variable rate lease. The term of the swap matches the term of the variable rate lease. As of February 1, 2014, Sobeys recognized an asset of $0.4 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact fair value of the instrument by plus/(minus) $0.6 million and would impact other comprehensive income by plus/(minus) $0.4 million.

<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 February 1, 2014 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 estimated 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 February 1, 2014, consolidated cash and cash equivalents were $284.6 million versus $455.2 million at May 4, 2013 and $370.5 million at February 2, 2013.

At the end of the third 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 $118.7 million or 26.4 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $698.3 million at February 1, 2014.

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 39 weeks ended February 1, 2014 and for the fiscal year ended May 4, 2013.

The following table highlights major cash flow components for the 13 and 39 weeks ended February 1, 2014 compared to the 13 and 39 weeks ended February 2, 2013:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
Net (loss) earnings	**$ (1.7)**	$ 73.0	**$ 242.1**	$ 281.7
Non-cash and other cash items	**211.4**	141.7	**401.7**	421.9
Net change in non-cash working capital	**(20.3)**	(19.1)	**(126.6)**	(101.1)
Income taxes paid, net	**(22.0)**	10.7	**(168.5)**	(61.6)
Cash flows from operating activities	**167.4**	206.3	**348.7**	540.9
Cash flows used in investing activities	**(4,116.2)**	(223.2)	**(5,045.7)**	(458.7)
Cash flows from (used in) financing activities	**3,440.9**	(2.5)	**4,526.4**	(221.9)
Decrease in cash and cash equivalents	**$ (507.9)**	$ (19.4)	**$ (170.6)**	$ (139.7)

(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 third quarter unaudited condensed consolidated financial statements.

Operations

The third quarter of fiscal 2014 generated cash flows from operating activities of $167.4 million compared to $206.3 million in the third quarter last year. The $38.9 million decrease is attributed to a decline in net earnings of $74.7 million, an increase in income taxed paid of $32.7 million and a decrease in the net change in non-cash working capital of $1.2 million, partially offset by an increase in non-cash and other cash items of $69.7 million.

For the 39 weeks ended February 1, 2014, cash flows from operating activities were $348.7 million compared to $540.9 million in the prior year. The decrease of $192.2 million is due to an increase in income taxes paid of $106.9 million, a decrease in net earnings of $39.6 million, a decrease in the net change in non-cash working capital of $25.5 million and a decline in non-cash and other cash items of $20.2 million.

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

($ in millions)	Feb. 1, 2014	Nov. 2, 2013	13 Weeks Ended Feb. 1, 2014 (Decrease) Increase in Cash Flows	13 Weeks Ended Feb. 2, 2013 (Decrease) Increase in Cash Flows
Receivables	**$ 424.5**	$ 381.8	**$ (42.7)**	$ 20.6
Inventories	**1,323.2**	932.5	**(390.7)**	(7.0)
Prepaid expenses (1)	**93.5**	150.8	**57.3**	12.7
Accounts payable and accrued liabilities	**(2,040.3)**	(1,764.8)	**275.5**	(37.7)
Provisions	**(32.5)**	(21.3)	**11.2**	(0.5)
Impact of reclassifications on working capital (1)	**(69.1)**	-	**69.1**	(7.2)
Total	**$ (300.7)**	$ (321.0)	**$ (20.3)**	$ (19.1)

(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 $(20.3) million in the third quarter is largely attributed to: (i) an increase in accounts payable and accrued liabilities of $275.5 million; (ii) the impact of reclassifications on working capital of $69.1 million; (iii) a decrease in prepaid expenses of $57.3 million; and (iv) an increase in provisions of $11.2 million. Partially offsetting these sources of cash were: (i) an increase in inventories of $390.7 million and (ii) an increase in receivables of $42.7 million. The increase in inventories, and accounts payable and accrued liabilities, as well as the increase in the impact of reclassifications on working capital are primarily due to the Canada Safeway acquisition completed in the third quarter ended February 1, 2014.

The Company's ratio of current assets to current liabilities was 1.1 times at February 1, 2014 compared to 1.0 times at the beginning of the current fiscal year and from the end of the third quarter last year.

Investment

Cash used in investing activities of $4,116.2 million in the third quarter of fiscal 2014 increased $3,893.0 million compared to cash used of $223.2 million last year. The increase was primarily the result of: (i) an increase in cash used in business acquisitions of $5,800.7 million from the Canada Safeway acquisition; (ii) an increase in cash used for investments of $56.6 million; and (iii) an increase in property, equipment and investment property purchases of $42.1 million. Partially offsetting these uses of cash were: (i) a decrease in funds held in escrow of $987.1 million; (ii) an increase in proceeds on the disposal of property, equipment and investment property of $983.5 million; (iii) a decrease in cash used for loans and other receivables of $16.7 million; and (iv) an increase in cash generated from other assets and other long-term liabilities of $12.0 million.

Consolidated purchases of property, equipment and investment properties totalled $165.3 million in the 13 weeks ended February 1, 2014 compared to $123.2 million in the 13 weeks ended February 2, 2013. Proceeds on the disposal of property, equipment and investment properties increased $983.5 million from $27.2 million recorded in the third quarter of fiscal 2013 to $1,010.7 million recorded in the third quarter of fiscal 2014, largely due to the sale-leaseback transaction with Crombie REIT of 70 properties for $991.3 million, which closed effective November 3, 2013. Please refer to the section of this MD&A entitled "Related Party Transactions" for more details on the acquisition.

For the 39 weeks ended February 1, 2014, cash used in investing activities was $5,045.7 million compared to cash used of $458.7 million last year, an increase of $4,587.0 million. The increase was primarily the result of: (i) an increase in cash used in business acquisitions of $5,801.2 million from the Canada Safeway acquisition and (ii) an increase in property, equipment and investment property purchases of $8.8 million. Partially offsetting these uses of cash were: (i) an increase in proceeds on the disposal of property, equipment and investment property of $1,190.5 million and (ii) proceeds from the sale of asset-backed commercial paper of $26.0 million.

For the 39 weeks ended February 1, 2014, consolidated purchases of property, equipment and investment properties totalled $385.8 million compared to $377.0 million in the same period last year. Proceeds on the disposal of property, equipment and investment properties increased $1,190.5 million from $99.7 million recorded in the 39 weeks ended February 2, 2013 to $1,290.2 million recorded in the 39 weeks ended February 1, 2014. This increase is primarily due to the sale-leaseback transaction with Crombie REIT for $991.3 million, as discussed.

The table below outlines the number of stores Sobeys invested in during the 13 and 39 weeks ended February 1, 2014 compared to the 13 and 39 weeks ended February 2, 2013:

	13 Weeks Ended		39 Weeks Ended	
# of stores	**Feb. 1, 2014**	Feb. 2, 2013	**Feb. 1, 2014**	Feb. 2, 2013
Opened/acquired/relocated	**25**	7	**57**	29
Acquired in Canada Safeway acquisition	**223**	-	**223**	-
Expanded	**3**	-	**3**	1
Rebannered/redeveloped	**1**	3	**8**	7
Closed	**6**	6	**22**	25

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended February 1, 2014, by type:

Square feet (in thousands)	13 Weeks Ended February 1, 2014	52 Weeks Ended February 1, 2014
Opened	280	1,047
Relocated	-	49
Acquired	9,274	9,320
Expanded	35	44
Closed	(69)	(447)
Net change	9,520	10,013

At February 1, 2014, Sobeys' square footage totalled 39.2 million square feet, a 34.2 percent increase over the 29.2 million square feet operated at the end of the third quarter last year. This increase was primarily due to the Canada Safeway acquisition.

Financing

Financing activities during the third quarter generated $3,440.9 million of cash compared to cash used of $2.5 million in the same quarter last year. The increase in cash generated of $3,443.4 million is primarily the result of financing transactions surrounding the Canada Safeway acquisition, which closed effective November 3, 2013. Sources of cash generated during the third quarter of fiscal 2014 included: (i) an increase in the issuance of long-term debt of $1,974.0 million and (ii) the issuance of Non-Voting Class A shares of $1,842.6 million. Partially offsetting these sources of cash were: (i) an increase in the repayment of long-term debt of $268.9 million; (ii) share issuance costs of $75.8 million; and (iii) an increase in deferred debt financing costs of $34.2 million.

For the 39 weeks ended February 1, 2014, cash generated from financing activities equalled $4,526.4 million compared to cash used of $221.9 million in the same period last year. The increase of $4,748.3 million is primarily a result of financing transactions surrounding the Canada Safeway acquisition, as mentioned. Sources of cash generated during the 39 weeks ended February 1, 2014 included: (i) the issuance of long-term debt of $3,175.3 million and (ii) the issuance of Non-Voting Class A shares of $1,842.6 million. Partially offsetting these sources of cash were: (i) an increase in the repayment of long-term debt of $107.7 million; (ii) share issuance costs of $75.8 million; (iii) an increase in deferred debt financing costs of $46.9 million; (iv) an increase in interest paid of $17.0 million; (v) an increase in dividends paid of $10.4 million; and (vi) an increase in stock option purchases of $9.1 million.

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 39 weeks ended February 1, 2014 and the 13 and 39 ended February 2, 2013.

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Feb. 1, 2014**	Feb. 2, 2013 (1)	**Feb. 1, 2014**	Feb. 2, 2013 (1)
Cash flows from operating activities	**$ 167.4**	$ 206.3	**$ 348.7**	$ 540.9
Plus: proceeds on disposal of property, equipment and investment property (2)	**19.4**	27.2	**298.9**	99.7
Less: property, equipment and investment property purchases	**(165.3)**	(123.2)	**(385.8)**	(377.0)
Free cash flow (3)	**$ 21.5**	$ 110.3	**$ 261.8**	$ 263.6

(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 of the Company's third quarter unaudited condensed consolidated financial statements.

(2) Excludes $991.3 million related to the sale-leaseback of acquired real estate with Crombie REIT, which was simultaneously used to partially fund the Canada Safeway acquisition.

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

Free cash flow generation in the third quarter of fiscal 2014 was $21.5 million compared to $110.3 million generated in the third quarter last year. The $88.8 million decrease in free cash flow was due to an increase in property, equipment and investment property purchases of $42.1 million; a $7.8 million decrease in proceeds on the disposal of property, equipment and investment property, and a decrease in cash flows from operating activities of $38.9 million. The $38.9 million decrease in cash flows from operating activities is attributed to a decline in net earnings of $74.7 million, an increase in income taxed paid of $32.7 million and a decrease in the net change in non-cash working capital of $1.2 million, partially offset by an increase in non-cash and other cash items of $69.7 million.

For the 39 weeks ended February 1, 2014, free cash flow generation was $261.8 million compared to $263.6 million generated last year. The $1.8 million decrease in free cash flow was due to a $199.2 million increase in proceeds on the disposal of property, equipment and investment property; partially offset by a $192.2 million decrease in cash flows from operating activities and an $8.8 million increase in property, equipment and investment property purchases. The decrease of $192.2 million in cash flow from operating activities is due to an increase in income taxes paid of $106.9 million, a decrease in net earnings of $39.6 million, a decrease in the net change in non-cash working capital of $25.5 million and a decline in non-cash and other cash items of $20.2 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 required the divestiture of 23 Sobeys and Canada Safeway stores. The Sobeys and Canada Safeway stores required to be divested have been included in assets held for sale as of February 1, 2014. The Canada Safeway acquisition closed effective Sunday, November 3, 2013 with funds being delivered on Monday, November 4, 2013.

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

- Empire equity offering of $1,844.1 million, net of fees of $75.8 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 and its subsidiaries have a right of first offer in respect of any real estate sales undertaken by Sobeys.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

($ in millions)		
Inventories	**$**	**446.5**
Property and equipment		**1,160.7**
Assets held for sale		**382.1**
Assets acquired for sale-leaseback		**991.3**
Intangibles		**442.9**
Deferred tax assets		**40.3**
Accounts payable and accrued liabilities		**(397.2)**
Pension obligations		**(138.6)**
Deferred tax liabilities		**(8.1)**
Other assets and liabilities		**45.0**
Total identifiable net assets	**$**	**2,964.9**
Excess consideration paid over identifiable net assets acquired allocated to goodwill	**$**	**2,835.1**

The fair value of identifiable net assets and goodwill acquired effective November 3, 2013 have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Goodwill of $2,835.1 million was recognized as the excess of the acquisition cost over the fair value of the identifiable net assets at the date of the acquisition. The goodwill recognized is attributable mainly to the expected synergies from integration, the expected future growth potential in grocery store operations and the customer base of the acquired retail store locations. Approximately $2,184.0 million of goodwill is expected to be deductible for income tax purposes.

Pre-tax acquisition costs of $67.7 million and $94.6 million relating to external legal, consulting, due diligence, financial advisory and other closing costs incurred during the 13 and 39 weeks ended February 1, 2014, respectively, have been included in selling and administrative expenses in the condensed consolidated statements of earnings.

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 Feb. 2, 2013	39 Weeks Ended Feb. 2, 2013	52 Weeks Ended May 4, 2013
Selling and administrative expenses	$ -	$ 0.5	$ 0.9
Operating income	-	(0.5)	(0.9)
Finance costs, net	1.6	4.7	6.2
Earnings before income taxes	(1.6)	(5.2)	(7.1)
Income taxes	(0.5)	(1.4)	(1.8)
Net earnings	(1.1)	(3.8)	(5.3)
Other comprehensive income, net of taxes	1.1	3.5	4.7
Total comprehensive income	$ -	$ (0.3)	$ (0.6)

Condensed Consolidated Balance Sheets Increase (Decrease) ($ in millions)	As at Feb. 2, 2013	As at May 4, 2013	As at May 5, 2012
Deferred tax assets	$ 0.4	$ 0.3	$ 0.2
Other long-term liabilities	1.5	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 consolidated financial statements for the fiscal year ended May 3, 2014.

(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 15 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. IFRS 9 is expected to be effective for annual periods beginning on or after January 1, 2018.

(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.

(iii) Levies
In May 2013, the IASB issued IFRIC 21, "Levies", which is an interpretation of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for the 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 November 3, 2013 and ended February 1, 2014 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 third quarter, the Company held a 41.6 percent ownership interest in Crombie REIT which is accounted for using the equity method. As a result of the Company's subscription to Class B limited partnership units during the third quarter of the current fiscal year, the Company's interest in Crombie REIT was reduced from 42.1 percent at the end of the second quarter of fiscal 2014 to 41.6 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 39.3 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 39 weeks ended February 1, 2014, the aggregate net payments under these leases, which are measured at exchange amount, were $32.6 million and $85.9 million, respectively (13 and 39 weeks ended February 2, 2013 - $22.4 million and $69.4 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 39 weeks ended February 1, 2014, charges incurred for administrative and management services were $0.1 million and $0.4 million, respectively (13 and 39 weeks ended February 2, 2013 - $0.3 million and $0.8 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of $1.8 million (February 2, 2013 - $2.5 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 $24.3 million (February 2, 2013 - $25.0 million). During the 13 and 39 weeks ended February 1, 2014, the Company received income related to these securities of $0.3 million and $0.9 million, respectively (13 and 39 weeks ended February 2, 2013 - $0.3 million and $0.9 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 39 weeks ended February 2, 2013, the Company sold four properties to Crombie REIT, all of which were leased back. Cash consideration received for the properties was recorded at the exchange amount of $52.7 million, resulting in a pre-tax gain of $6.2 million, which was recognized in the consolidated statements of earnings.

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.

On December 14, 2012, Crombie REIT closed a bought-deal public offering of units at a price of $14.75 per unit. Concurrent with the public offering, the Company subscribed for $24.5 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT).

On July 24, 2013, Sobeys entered into a sale-leaseback agreement with Crombie REIT, pursuant to which Crombie REIT agreed to indirectly acquire 70 properties included in the Canada Safeway acquisition for $991.3 million. The sale-leaseback transaction closed effective November 3, 2013 immediately following the close of the Canada Safeway acquisition.

On closing of the acquisition of the 70 properties, the Company subscribed for $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.

During the quarter ended February 1, 2014, Crombie REIT purchased from the Company their interest in certain retention leases for cash consideration of $1.5 million resulting in a pre-tax gain of $0.4 million which was recognized in the consolidated statements of earnings.

SUBSEQUENT EVENT

Subsequent to the close of the third quarter, on February 13, 2014, Sobeys announced that it has entered into binding purchase agreements with Overwaitea Food Group LP and Federated Co-operatives Limited to purchase 22 of the 23 retail stores required to be divested as a result of the Canada Safeway acquisition. In addition to the required divestitures, Sobeys has agreed to sell an additional seven stores in British Columbia comprised of both Safeway and Sobeys locations. The agreements with Overwaitea Food Group LP and Federated Co-operatives Limited have received approval from the Competition Bureau. The sales are expected to occur during the Company's fourth quarter of fiscal 2014 and the first quarter of fiscal 2015. Sobeys has also signed a binding letter of intent with another retailer for the sale of one retail store which is also required to be divested as part of the Canada Safeway acquisition. This sale remains subject to the finalization of an asset purchase agreement with the purchaser and approval from the Competition Bureau.

Total proceeds from the transactions with Overwaitea Food Group LP and Federated Co-operatives Limited will be approximately $430.0 million plus the value of inventory on closing dates, subject to customary closing adjustments. Proceeds will be used to repay bank borrowings.

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 39 weeks ended February 1, 2014, the Company contributed $4.2 million and $8.0 million, respectively, to its registered defined benefit plans (13 and 39 weeks ended February 2, 2013 - $2.6 million and $7.7 million). The Company expects to contribute approximately $12.2 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: March 12, 2014
Stellarton, Nova Scotia, Canada