EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 WEEKS ENDED AUGUST 1, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 13 weeks ended August 1, 2015 compared to the 13 weeks ended August 2, 2014. It should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the 13 weeks ended August 1, 2015, compared to the 13 weeks ended August 2, 2014, and the audited annual consolidated financial statements for the 52 weeks ended May 2, 2015 and the related MD&A. Additional information about the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD"). The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended May 2, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. These unaudited interim condensed consolidated financial statements include the accounts of Empire and its subsidiaries and structured entities ("SEs") which the Company is required to consolidate.

The information contained in this MD&A is current to September 9, 2015 unless otherwise noted. There have been no material changes to disclosures as contained in the "Outlook", "Critical Accounting Estimates", "Contingencies" or "Risk Management" sections of the Company's MD&A for the 52 weeks ended May 2, 2015 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. Forward-looking statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" and other similar expressions or the negative of these terms.

These forward-looking statements include the following items:

- The Company's expectations regarding the cost savings related to the distribution centre restructuring, which could be impacted by the number of closures and positions eliminated;
- The Company's expectations regarding the cost savings related to the organizational realignment, which could be impacted by the number of positions eliminated;
- The Company's expectations relating to administrative and business rationalization initiatives which could be impacted by the final scope and scale of these initiatives;
- The Company's expectations regarding the retail store network rationalization including the impact on future sales and net earnings, which may be impacted by the timing of closures and realization of synergies;
- Continued realization of 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;
- The Company's expectations relating to the timing of the mitigation of organizational, training and education gaps related to IT system, process integration and reorganizational changes at Safeway, which may be delayed by further unforeseen challenges;

- 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 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 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; and

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

These statements are based on management's 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 this MD&A.

Empire cautions that the list of 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 do not take into account the effect of transactions occurring after the statements have been made on the Company's business. 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 of September 9, 2015, 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.

OVERVIEW OF THE BUSINESS

Empire's key businesses are food retailing and related real estate. The Company's financial results are segmented into two separate reportable segments: (1) Food retailing and (2) Investments and other operations.

With approximately $24.0 billion in annualized sales and $11.6 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 125,000 people.

Food Retailing

Empire's food retailing segment is carried out through Sobeys.

Proudly Canadian, with headquarters in Stellarton, Nova Scotia, Sobeys has been serving the food shopping needs of Canadians for 108 years. As of August 1, 2015, Sobeys Inc., a wholly-owned subsidiary of Empire (TSX:EMP.A), owns, affiliates or franchises more than 1,500 stores in all 10 provinces under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo, Thrifty Foods, and Lawton's Drug Stores as well as over 350 retail fuel locations. The Company's purpose is to help Canadians *Eat Better, Feel Better and Do Better.*

In fiscal 2014 Sobeys launched its *Better Food for All* movement to empower Canadians to *Eat Better, Feel Better and Do Better* through a variety of better food experiences and as an advocate for better food education.

As part of this commitment, Sobeys launched the *Better Food Fund* (the "Fund") in fiscal 2015. The Fund supports access to and the advancement of better food through donations and partnerships with national and regional charities. The Fund's areas of focus are: food access through the support of food banks and breakfast programs; research on food-related health issues; and food literacy through nutrition education and cooking skills programs in schools and communities.

In the first quarter of fiscal 2016, Sobeys continued to execute a number of initiatives in support of this food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

During the 13 weeks ended August 1, 2015, Sobeys opened, relocated, acquired, expanded, rebannered, and/or redeveloped the banners in 33 stores (2015 – 26 stores).

Significant Items

Co-op Atlantic Acquisition

On May 12, 2015, an agreement to purchase certain assets and assume select liabilities of Co-op Atlantic's food and fuel business for $24.5 million plus standard working capital adjustments and holdbacks was approved by Co-op Atlantic's member-owners. The agreement provides for the purchase of five full service grocery stores, five fuel stations (two co-located with grocery stores), other real estate assets, and other assets and select liabilities. On June 12, 2015, regulatory clearance was obtained from the Competition Bureau and the transaction closed effective June 21, 2015.

Distribution Centre Restructuring

During fiscal 2015, Sobeys performed a critical review of its excess distribution centre capacity, which identified restructuring opportunities that are expected to improve net earnings as a result of cost savings within its distribution network. The Company is continuing to identify efficiencies and for the 13 weeks ended August 1, 2015, $4.7 million (2015 – $ nil) in costs associated with the distribution centre restructuring were incurred.

On June 30, 2015, Sobeys purchased a former Target Canada Co. warehouse in Rocky View, Alberta for $50.0 million. The facility will be retro-fitted for automation and when renovations are complete, it will have the capacity to efficiently distribute dry grocery to stores in Alberta, Saskatchewan and part of Manitoba.

Business Process

Following the close of the Canada Safeway acquisition, Sobeys began the process of integrating the acquired business with Sobeys' current operations. For the 13 weeks ended August 2, 2014, the Company recorded pre-tax integration costs of $9.7 million, which have been included in selling and administrative expenses in the condensed consolidated statement of earnings; no costs have been incurred in the current period. In addition, Sobeys recognized synergies of $51.0 million (2015 – $28.2 million) associated with the acquisition during the first quarter of fiscal 2016.

During the fourth quarter of fiscal 2015, Sobeys completed a review of its business support network, which identified restructuring opportunities. This ongoing organizational realignment will strengthen the business support network and is expected to improve net earnings as a result of cost savings and maximize the efficiency of the network. For the 13 weeks ended August 1, 2015, the Company recognized $6.4 million in severance costs, associated with the organizational realignment.

Real Estate Divestitures

On June 30, 2015, Sobeys sold and leased back one property from a third party. Total proceeds from the transaction were $26.0 million, resulting in a gain of $8.9 million. All proceeds will be used to repay bank borrowings.

Retail Store Network Rationalization

During the fourth quarter of fiscal 2014, Sobeys completed a detailed review of its retail store network, aligning with management's ongoing focus of enhancing the productivity and performance of the network and logically following the acquisition of Canada Safeway. Based on this detailed review, Sobeys determined that it would close consistently underperforming retail stores, to strengthen the quality of Sobeys' store network. This is expected to improve net earnings as a result of cost savings, however, it will result in a reduction in future sales of approximately $400 million or 1.9 percent of total sales on an annual basis. As of August 1, 2015, 42 retail stores, representing approximately 1.3 million square feet, have been closed. There were no closures in the first quarter of fiscal 2016.

Investments and Other Operations

Empire's investments and other operations segment, as of August 1, 2015 specifically included:

1. A 41.5 percent (40.2 percent fully diluted) equity accounted interest in Crombie Real Estate Investment Trust ("Crombie REIT"), an open-ended Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 255 retail and office properties across Canada, comprising approximately 17.5 million square feet with a strategy to own and operate a portfolio of high quality grocery and drug store anchored shopping centres and freestanding stores primarily 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").

CONSOLIDATED OPERATING RESULTS

The following table is a summary of selected financial information from the Company's unaudited interim condensed consolidated financial statements for the 13 weeks ended August 1, 2015 compared to the 13 weeks ended August 2, 2014.

	13 Weeks Ended				
	August 1, 2015			August 2, 2014(1)	
($ in millions, except per share amounts)		**% of Sales**			% of Sales
Sales	**$**	**6,249.2**	**100.0%**	$ 6,222.7	100.0%
EBITDA(2)		**314.1**	**5.0%**	342.5	5.5%
Adjusted EBITDA(2)		**325.2**	**5.2%**	342.5	5.5%
Operating income		**195.5**	**3.1%**	219.4	3.5%
Finance costs, net		**32.9**	**0.5%**	43.6	0.7%
Income taxes		**43.5**	**0.7%**	44.4	0.7%
Net earnings(3)		**108.8**	**1.7%**	123.1	2.0%
Adjusted net earnings(2)(3)		**121.7**	**1.9%**	129.1	2.1%
Basic earnings per share					
Net earnings(3)	**$**	**1.18**		$ 1.33	
Adjusted net earnings(2)(3)	**$**	**1.32**		$ 1.40	
Basic weighted average number of shares outstanding (in millions)		**92.3**		92.3	
Diluted earnings per share					
Net earnings(3)	**$**	**1.18**		$ 1.33	
Adjusted net earnings(2)(3)	**$**	**1.32**		$ 1.40	
Diluted weighted average number of shares outstanding (in millions)		**92.5**		92.3	
Dividend per share	**$**	**0.30**		$ 0.27	

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated statement of earnings.
(2) See "Non-GAAP Financial Measures" section of this MD&A.
(3) Net of non-controlling interest.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of the Company's consolidated financial performance for the 13 weeks ended August 1, 2015 compared to the 13 weeks ended August 2, 2014.

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

All sales are generated by the food retailing segment.

In the first quarter of fiscal 2016, the Company reported sales of $6,249.2 million, an increase of $26.5 million or 0.4 percent, from $6,222.7 million reported in the first quarter of fiscal 2015. The increase in sales was primarily the result of:

- Food inflation; and
- The Co-op Atlantic acquisition and the associated long-term supply and franchise agreements.

This increase was partially offset by:

- Store closures associated with the network rationalization;
- The lost wholesale food volumes resulting from the loss of wholesale customers;
- The decline in oil prices impacting fuel sales;
- Retail store divestitures occurring during the first quarter of fiscal 2015; and
- The economic downturn in areas that have been impacted by decreasing oil prices.

During the first quarter of fiscal 2016, same-store sales[(1)] in the food retailing segment increased 0.5 percent from the same period last year. Excluding the negative impact of fuel sales, due to downward pressure on oil prices, same-store sales would have increased by 1.2 percent.

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

EBITDA

Consolidated EBITDA for the 13 weeks ended August 1, 2015 was $314.1 million, a decrease of $28.4 million or 8.3 percent compared to $342.5 million for the same period last year. The decrease in EBITDA was mainly the result of:

- A decrease in gross profit in the food retailing segment;
- Organizational realignment costs; and
- Distribution centre restructuring costs.

This decrease was partially offset by reductions realized in selling and administrative expenses.

EBITDA margin for the 13 weeks ended August 1, 2015 decreased 50 basis points to 5.0 percent from 5.5 percent. The following table summarizes adjusted EBITDA and adjusted EBITDA margin for the 13 weeks ended August 1, 2015 and August 2, 2014, which excludes items that are considered not indicative of underlying business operating performance.

	13 Weeks Ended	
($ in millions)	**August 1, 2015**	August 2, 2014[1]
EBITDA (consolidated)	**$ 314.1**	$ 342.5
Adjustments:		
Organizational realignment costs	**6.4**	-
Distribution centre restructuring	**4.7**	-
	11.1	-
Adjusted EBITDA (consolidated)	**$ 325.2**	$ 342.5
Adjusted EBITDA margin[2]	**5.2%**	5.5%

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

Operating Income

For the 13 weeks ended August 1, 2015, operating income decreased $23.9 million or 10.9 percent to $195.5 million from $219.4 million reported in the same period last year. Operating income decreased primarily due to the factors noted in the sales and EBITDA sections above.

Finance Costs

During the first quarter of fiscal 2016, finance costs, net of finance income, decreased $10.7 million to $32.9 million compared to $43.6 million during the same period last year. This decrease is mainly due to the debt repayments in fiscal 2015.

Interest coverage[1] increased to 7.0 times from 5.7 times for the same period last year as a result of decreased debt levels and associated interest expense, partially offset by decreased operating income.

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

Income Taxes

The Company's effective income tax rate for the 13 weeks ended August 1, 2015 was 26.8 percent compared to 25.3 percent in the same period last year. The increase in the effective tax rate is primarily attributed to partial non-taxable proceeds on the disposition of certain stores in the same period last year.

Net Earnings

Consolidated net earnings, net of non-controlling interest, for the 13 weeks ended August 1, 2015 equaled $108.8 million ($1.18 per diluted share) compared to $123.1 million ($1.33 per diluted share) reported in the first quarter last year.

The following table adjusts net earnings, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance.

	13 Weeks Ended			
($ in millions, except per share amounts, net of tax)		**August 1, 2015**		August 2, 2014
Net earnings by segment[1]:				
Food retailing	**$**	**101.4**	$	113.5
Investments and other operations		**7.4**		9.6
Net earnings[1]	**$**	**108.8**	$	123.1
EPS[2] (fully diluted)	**$**	**1.18**	$	1.33
Adjustments[3]:				
Intangible amortization associated with the Canada Safeway acquisition	**$**	**4.8**	$	6.0
Organizational realignment costs		**4.6**		-
Distribution centre restructuring		**3.5**		-
		12.9		6.0
Adjusted net earnings[1]	**$**	**121.7**	$	129.1
Adjusted net earnings by segment[1]:				
Food retailing	**$**	**114.3**	$	119.5
Investment and other operations		**7.4**		9.6
Adjusted net earnings[1]	**$**	**121.7**	$	129.1
Adjusted EPS[2] (fully diluted)	**$**	**1.32**	$	1.40
Diluted weighted average number of shares outstanding (in millions)		**92.5**		92.3

(1) Net of non-controlling interest.
(2) Earnings per share ("EPS")
(3) All adjustments are net of income taxes.

FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

The following is a review of Empire's Food retailing segment's financial performance for the 13 weeks ended August 1, 2015 compared to the 13 weeks ended August 2, 2014.

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

	13 Weeks Ended[1]					
	August 1, 2015			August 2, 2014		
($ in millions)			**% of Sales**			% of Sales
Sales	**$**	**6,249.2**	**100.0%**	$	6,222.7	100.0%
Gross profit		**1,516.0**	**24.3%**		1,545.9	24.8%
EBITDA		**303.1**	**4.9%**		329.4	5.3%
Adjusted EBITDA		**314.2**	**5.0%**		329.4	5.3%
Operating income		**184.6**	**3.0%**		206.2	3.3%
Net earnings[2]		**101.4**	**1.6%**		113.5	1.8%
Adjusted net earnings[2]		**114.3**	**1.8%**		119.5	1.9%

(1) Net of consolidation adjustments which include a purchase price allocation from the privatization of Sobeys.
(2) Net of non-controlling interest.

Sales

In the first quarter of fiscal 2016, Sobeys reported sales of $6,249.2 million, an increase of $26.5 million or 0.4 percent, from $6,222.7 million reported in the first quarter of fiscal 2015. The increase in sales was primarily the result of:

- Food inflation; and
- The Co-op Atlantic acquisition and the associated long-term supply and franchise agreements.

This increase was partially offset by:

- Store closures associated with the network rationalization;
- The lost wholesale food volumes resulting from the loss of wholesale customers;
- The decline in oil prices impacting fuel sales;
- Retail store divestitures occurring during the first quarter of fiscal 2015; and
- The economic downturn in areas that have been impacted by decreasing oil prices.

During the first quarter of fiscal 2016, same-store sales increased 0.5 percent from the same period last year. Excluding the negative impact of fuel sales, due to downward pressure on oil prices, same-store sales would have increased by 1.2 percent.

Gross Profit

For the first quarter of fiscal 2016, Sobeys' gross profit was $1,516.0 million, a decrease of $29.9 million or 1.9 percent compared to $1,545.9 million for the same period in the prior year. For the first quarter of fiscal 2016, gross margin decreased 50 basis points to 24.3 percent compared to 24.8 percent for the first quarter of fiscal 2015.

The decrease in gross margin during the quarter was a result of the learning curve and associated time needed for the organization to adapt to the significant changes from the technical integration of the Safeway operations. Significant organizational, training, and education gaps related to IT system, process integration and reorganizational changes have been identified and are being aggressively addressed. It is expected these challenges will be mitigated over the coming quarters and remedied by the end of fiscal 2016.

In addition, gross profit and gross margin continued to be impacted during the 13 weeks ended August 1, 2015 by the factors impacting sales, as well as:

- Synergies related to Safeway, store divestitures and network rationalization; offset by
- Continued competitive intensity;
- A highly promotional environment; and
- A weaker CAD relative to the United States dollar ("USD") which affected the CAD cost of USD purchases.

For the 13 weeks ended August 1, 2015, the decline in the price of oil, which had an impact on fuel sales, did not have a material impact on gross profit.

EBITDA

Sobeys' contributed EBITDA for the 13 weeks ended August 1, 2015 was $303.1 million, a decrease of $26.3 million or 8.0 percent compared to $329.4 million for the same period last year. The decrease in EBITDA was mainly the result of:

- A decrease in gross profit, noted above;
- Organizational realignment costs; and
- Distribution centre restructuring costs.

This decrease was partially offset by reductions realized in selling and administrative expenses.

Sobeys' contributed EBITDA margin for the 13 weeks ended August 1, 2015 decreased 40 basis points to 4.9 percent from 5.3 percent. The following table summarizes adjusted EBITDA and adjusted EBITDA margin for the 13 weeks ended August 1, 2015 and August 2, 2014, which excludes items that are considered not indicative of underlying business operating performance.

	13 Weeks Ended	
($ in millions)	**August 1, 2015**	August 2, 2014
EBITDA (contributed by Sobeys)	**$ 303.1**	$ 329.4
Adjustments:		
Organizational realignment costs	**6.4**	-
Distribution centre restructuring	**4.7**	-
	11.1	-
Adjusted EBITDA	**$ 314.2**	$ 329.4
Adjusted EBITDA margin	**5.0%**	5.3%

Operating Income

For the 13 weeks ended August 1, 2015, Sobeys' contribution to operating income decreased $21.6 million or 10.5 percent, to $184.6 million from $206.2 million reported in the same period last year. Operating income decreased primarily due to the factors noted in the gross profit and EBITDA sections above.

Net Earnings

Sobeys' contributed net earnings, net of non-controlling interest, for the 13 weeks ended August 1, 2015 were $101.4 million, a decrease of $12.1 million over the same period last year. This decrease is due to the reasons noted in the sales, gross profit and EBITDA sections above.

The following table adjusts Sobeys' contributed net earnings, net of non-controlling interest, for items which are considered not indicative of underlying business operating performance.

	13 Weeks Ended	
($ in millions)	**August 1, 2015**	August 2, 2014
Net earnings (contributed by Sobeys)(1)	**$ 101.4**	$ 113.5
Adjustments(2):		
Intangible amortization associated with the Canada Safeway acquisition	**4.8**	6.0
Organizational realignment costs	**4.6**	-
Distribution centre restructuring	**3.5**	-
	12.9	6.0
Adjusted net earnings(1)	**$ 114.3**	$ 119.5

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

Investments and Other Operations

The table below presents EBITDA, operating income (loss), and net earnings, for the investments and other operations segment.

($ in millions)	13 Weeks Ended **August 1, 2015**	13 Weeks Ended August 2, 2014[1]
EBITDA	**$ 11.0**	$ 13.1
Operating income (loss)		
Crombie REIT[2]	**7.4**	7.3
Real estate partnerships[3]	**4.9**	8.0
Other operations, net of corporate expenses	**(1.4)**	(2.1)
	10.9	13.2
Net earnings	**$ 7.4**	$ 9.6

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated statement of earnings.
(2) 41.5 percent equity accounted interest in Crombie REIT (August 2, 2014 – 41.5 percent interest).
(3) Interests in Genstar.

At August 1, 2015, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

($ in millions)	**August 1, 2015** **Fair Value**	**August 1, 2015** **Carrying Value**	**August 1, 2015** **Unrealized Gain**	May 2, 2015 Fair Value	May 2, 2015 Carrying Value	May 2, 2015 Unrealized Gain	August 2, 2014 Fair Value	August 2, 2014 Carrying Value	August 2, 2014 Unrealized Gain
Investment in associates									
Crombie REIT	**$ 687.8**	**$ 362.1**	**$ 325.7**	$ 724.3	$ 365.6	$ 358.7	$ 717.2	$ 369.4	$ 347.8
Canadian real estate partnerships[1]	**141.8**	**141.8**	-	143.4	143.4	-	141.3	141.3	-
U.S. real estate partnerships[1]	**54.3**	**54.3**	-	59.3	59.3	-	59.7	59.7	-
Investment in joint ventures									
Canadian Digital Cinema Partnership[1]	**9.4**	**9.4**	-	9.5	9.5	-	9.7	9.7	-
	$ 893.3	**$ 567.6**	**$ 325.7**	$ 936.5	$ 577.8	$ 358.7	$ 927.9	$ 580.1	$ 347.8

(1) Assumes fair value equals carrying value.

Operating Income

For the 13 weeks ended August 1, 2015, investments and other operations reported operating income of $10.9 million compared to $13.2 million in the same period last year, a decrease of $2.3 million.

The contributors to operating income in the first quarter of fiscal 2016 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $7.4 million for the 13 weeks ended August 1, 2015, up slightly from the $7.3 million recorded in the same period last year.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were $4.9 million in the 13 weeks ended August, 2015, a decrease of $3.1 million compared to $8.0 million recorded in the same period last year, primarily as a result of fewer lot sales.
- Other operations, net of corporate expenses, contributed an operating loss of $1.4 million in the 13 weeks ended August 1, 2015, an improvement of $0.7 million from the $2.1 million loss recorded in the same period last year.

Net Earnings

For the 13 weeks ended August 1, 2015, investments and other operations contributed $7.4 million to Empire's consolidated net earnings compared to $9.6 million in the same period last year. The $2.2 million decline is primarily attributed to a decline in Genstar's net earnings contribution as a result of fewer lot sales.

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 2016**	Fiscal 2015[(1)]				Fiscal 2014[(1)]		
	Q1 Aug. 1, 2015	Q4 May 2, 2015	Q3 Jan. 31, 2015	Q2 Nov. 1, 2014	Q1 Aug. 2, 2014	Q4 May 3, 2014	Q3 Feb. 1, 2014	Q2 Nov. 2, 2013
Sales	**$ 6,249.2**	$ 5,770.5	$ 5,940.5	$ 5,995.1	$ 6,222.7	$ 5,944.3	$ 6,003.9	$ 4,414.3
EBITDA	**314.1**	236.3	322.3	323.8	342.5	147.2	188.6	196.3
Operating income	**195.5**	115.9	203.4	203.7	219.4	22.7	65.0	105.9
Net earnings from continuing operations[(2)]	**108.8**	55.4	123.6	116.9	123.1	1.5	6.4	60.5
Net earnings (loss) from discontinued operations[(3)]	**-**	-	-	-	-	(0.7)	(6.0)	108.7
Net earnings[(2)]	**$ 108.8**	$ 55.4	$ 123.6	$ 116.9	$ 123.1	$ 0.8	$ 0.4	$ 169.2
Per share information, Basic								
Net earnings from continuing operations[(2)]	**$ 1.18**	$ 0.60	$ 1.34	$ 1.27	$ 1.33	$ 0.02	$ 0.07	$ 0.89
Net earnings (loss) from discontinued operations[(3)]	**-**	-	-	-	-	(0.01)	(0.07)	1.60
Net earnings[(2)]	**$ 1.18**	$ 0.60	$ 1.34	$ 1.27	$ 1.33	$ 0.01	$ -	$ 2.49
Basic weighted average number of shares outstanding (in millions)	**92.3**	92.3	92.3	92.3	92.3	92.3	92.0	68.0
Per share information, diluted								
Net earnings from continuing operations[(2)]	**$ 1.18**	$ 0.60	$ 1.34	$ 1.27	$ 1.33	$ 0.02	$ 0.07	$ 0.89
Net earnings (loss) from discontinued operations[(3)]	**-**	-	-	-	-	(0.01)	(0.07)	1.59
Net earnings[(2)]	**$ 1.18**	$ 0.60	$ 1.34	$ 1.27	$ 1.33	$ 0.01	$ -	$ 2.48
Diluted weighted average number of shares outstanding (in millions)	**92.5**	92.5	92.4	92.3	92.3	92.4	92.1	68.2

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated statement of earnings.
(2) Net of non-controlling interest.
(3) Financial results related to Empire Theatres, as previously reported in the investments and other operations segment, have been included in discontinued operations.

When reviewing financial results for comparable periods:

- The results of the third and fourth quarters of fiscal 2015 show reduced sales, when compared to the same quarters in fiscal 2014 as a result of the network rationalization, declining oil prices impact on fuel sales and Competition Bureau imposed divestitures.

- The results of the second quarter in fiscal 2015 compared to the same period in fiscal 2014 were higher due to the inclusion of Safeway operations. The quarter ended February 1, 2014 was the first quarter which included Safeway operations.

Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. The Company does experience some seasonality, as evidenced in the results presented above, in particular during the summer months and over the holidays. The sales, EBITDA, operating income and net earnings, net of non-controlling interest, have been influenced by Safeway operations, one-time adjustments, other investing activities, the competitive environment, cost management initiatives, food price and general industry trends, and by other risk factors as outlined in the "Risk Management" section in the fiscal 2015 annual MD&A.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights major cash flow components for the 13 weeks ended August 1, 2015 compared to the 13 weeks ended August 2, 2014.

($ in millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014(1)
Net earnings	**$ 119.1**	$ 131.4
Non-cash and other cash items	**217.9**	232.3
Net change in non-cash working capital	**6.0**	32.1
Income taxes paid, net	**(27.2)**	(18.5)
Cash flows from operating activities	**315.8**	377.3
Cash flows used in investing activities	**(162.3)**	(33.8)
Cash flows used in financing activities	**(65.4)**	(382.6)
Increase (decrease) in cash and cash equivalents	**$ 88.1**	$ (39.1)

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

Operations

Cash flows from operating activities for the first quarter generated $315.8 million compared to $377.3 million in the same period in fiscal 2015, a decrease of $61.5 million. This decrease was mainly the result of:

- A decrease in the net change in non-cash working capital; and
- A decrease in non-cash and other cash items.

The following table presents non-cash working capital and the breakdown of net change in non-cash working capital in the first quarter of fiscal 2016 compared to the net change in the first quarter of fiscal 2015.

($ in millions)	August 1, 2015	May 2, 2015	13 Weeks Ended Q1 F2016 Change	13 Weeks Ended Q1 F2015 Change(1)
Receivables	**$ 489.6**	$ 507.4	**$ 17.8**	$ (24.5)
Inventories	**1,331.2**	1,260.6	**(70.6)**	14.8
Prepaid expenses	**141.7**	120.5	**(21.2)**	(13.5)
Accounts payable and accrued liabilities	**(2,365.1)**	(2,265.8)	**99.3**	78.5
Provisions	**(109.6)**	(122.1)	**(12.5)**	(7.8)
Impact of reclassifications on working capital	**6.8**	-	**(6.8)**	(15.4)
Total	**$ (505.4)**	$ (499.4)	**$ 6.0**	$ 32.1

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

In the first quarter of fiscal 2016:

- Inventories increased $70.6 million compared to a decrease of $14.8 million during the same period last year. There were increases to distribution centre inventories in the West as a result of the challenges subsequent to the technical integration of the Safeway operations and also from the Co-op Atlantic acquisition. During the same quarter in the prior year, 43 sites were closed which resulted in lower than normal inventories at the close of the quarter.

- Receivables decreased $17.8 million compared to an increase of $24.5 million during the same period last year due to the reclassification of certain balances; as well, there was a receivable in the fourth quarter of 2015 related to the Agropur purchase which settled during the first quarter of fiscal 2016.

Investment

Cash used in investing activities increased $128.5 million in the first quarter of fiscal 2016 compared to cash used in the comparable period last year. This increase was mainly due to:

- A reduction of proceeds on disposal of property, equipment and investment property, driven by the Competition Bureau imposed divestitures that occurred in fiscal 2015 associated with the Canada Safeway acquisition;
- The Co-op Atlantic acquisition; and
- An increase in property, equipment and investment property purchases.

The increase was partially offset by a $37.0 million decrease in investments due to an equity investment in Crombie REIT of approximately $40.0 million in the first quarter of fiscal 2015.

The table below outlines the number of stores Sobeys invested in during the 13 weeks ended August 1, 2015 compared to the 13 weeks ended August 2, 2014.

	13 Weeks Ended	
# of stores	**August 1, 2015**	August 2, 2014
Opened/relocated/acquired	**17**	24
Expanded	**5**	-
Rebannered/redeveloped	**11**	2
Closed – normal course of operations	**7**	9
Divested – Competition Bureau imposed	**-**	11
Closed – network rationalization	**-**	23

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended August 1, 2015, by type:

Square feet (in thousands)	**13 Weeks Ended August 1, 2015**	52 Weeks Ended August 1, 2015
Opened	**111**	490
Relocated	**34**	169
Acquired	**49**	72
Expanded	**47**	86
Closed – normal course of operations	**(32)**	(125)
Net change before the impact of the network rationalization	**209**	692
Closed – network rationalization	**-**	(669)
Net change with the impact of the network rationalization	**209**	23

At August 1, 2015, Sobeys' square footage totaled 37.8 million a nominal increase over the 37.8 million square feet operated at the end of the first quarter last year. Excluding the impact of closed stores due to the network rationalization, square footage would have increased 1.9 percent.

Financing

During the first quarter of fiscal 2016, financing activities resulted in cash used of $65.4 million compared to $382.6 million used in the first quarter of fiscal 2015. The decrease in cash used was primarily due to reduction in the repayment of long term debt. This was partially offset by Sobeys completing a private placement of $300.0 million aggregate principal amount of floating rate senior unsecured notes, during the first quarter of fiscal 2015. The net proceeds from this issuance of debt, combined with cash from operations and proceeds from the sale of divested stores, were applied against bank borrowings.

Free Cash Flow

Free cash flow[1] is used to measure the change in the Company's cash available for debt repayment, dividend payments and other investing and financing activities. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 13 weeks ended August 1, 2015 and the 13 weeks ended August 2, 2014.

	13 Weeks Ended	
($ in millions)	**August 1, 2015**	August 2, 2014
Cash flows from operating activities	**$ 315.8**	$ 377.3
Add: proceeds on disposal of property, equipment and investment property	**43.9**	119.8
Less: property, equipment and investment property purchases	**(142.9)**	(105.8)
Free cash flow	**$ 216.8**	$ 391.3

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

Free cash flow for the first quarter of fiscal 2016 was $216.8 million compared to $391.3 million in the first quarter of fiscal 2015. This decrease in free cash flow was the result of a reduction in cash flows from operating activities and a decrease in proceeds on disposal of property, equipment and investment property, primarily due to the divestiture of 11 stores during the first quarter of fiscal 2015, required as part of the Canada Safeway acquisition.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure

The Company's share capital was comprised of the following on August 1, 2015:

	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	59,633,835	2,102.5
Class B common shares, without par value, voting	40,800,000	32,712,693	7.3
			$ 2,109.8

Key Financial Condition Measures

The key financial condition measures are presented in the table below.

($ in millions, except per share and ratio calculations)	**August 1, 2015**	May 2, 2015[1]	August 2, 2014[1] [2]
Shareholders' equity, net of non-controlling interest	**$ 6,078.1**	$ 5,983.8	$ 5,775.3
Book value per common share[3]	**$ 65.82**	$ 64.81	$ 62.56
Long-term debt, including current portion	**$ 2,272.0**	$ 2,290.9	$ 3,170.0
Funded debt to total capital[3]	**27.2%**	27.7%	35.4%
Net funded debt to net total capital[3]	**23.7%**	25.0%	32.5%
Funded debt to EBITDA[3][4][5]	**1.9x**	1.9x	3.6x
EBITDA to interest expense[3][4][6]	**9.5x**	8.9x	5.6x
Current assets to current liabilities	**0.8x**	0.9x	1.0x
Total assets	**$ 11,632.3**	$ 11,468.4	$ 12,099.2

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated statement of cash flows and the condensed consolidated balance sheets.
(2) Amounts have been restated as a result of the finalized purchase price allocation related to the Canada Safeway acquisition; see the "Business Acquisition" section of the Fiscal 2015 annual MD&A.
(3) See "Non-GAAP Financial Measures" section of this MD&A.
(4) Ratios for August 2, 2014 exclude EBITDA and interest expense relating to discontinued operations.
(5) Calculation uses trailing four-quarter EBITDA.
(6) Calculation uses trailing four-quarter EBITDA and interest expense.

The ratio of funded debt to total capital decreased 0.5 percentage points to 27.2 percent at August 1, 2015 from 27.7 percent at May 2, 2015.

The funded debt to EBITDA ratio remained unchanged from 1.9 times at May 2, 2015. An increase in the EBITDA to interest expense coverage ratio (9.5 times versus 8.9 times at May 2, 2015) was the result of lower trailing 12-month interest expense ($126.3 million versus $137.3 million at May 2, 2015), and a lower trailing 12-month EBITDA ($1,196.5 million versus $1,226.1 million at May 2, 2015).

The Company's ratio of current assets to current liabilities was 0.8 times at August 1, 2015 compared to 0.9 times at May 2, 2015.

Subsequent to August 1, 2015, Standard and Poor's ("S&P") affirmed its credit rating for Sobeys at BBB-, but revised its outlook to stable from negative. Sobeys' current credit rating with Dominion Bond Rating Service ("DBRS") is BBB (low) with a stable trend.

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 various sources of funds are diversified by term to maturity and source of credit.

The Company has provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 13 weeks ended August 1, 2015.

Shareholders' Equity

The increase in shareholders' equity, net of non-controlling interest, of $302.8 million from fiscal 2015 primarily reflects the increase in retained earnings. Book value per common share was $65.82 at August 1, 2015 compared to $62.56 at August 2, 2014.

The Company's share capital on August 1, 2015 compared to the same period in the last fiscal year is shown in the table below.

	13 Weeks Ended	
(Number of Shares)	**August 1, 2015**	August 2, 2014
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**59,620,737**	58,049,484
Issued during period	**13,098**	19,225
Issued and outstanding, end of period	**59,633,835**	58,068,709
Class B common shares		
Issued and outstanding, beginning of period	**32,712,693**	34,260,763
Issued during period	**-**	-
Total Issued and outstanding, end of period	**32,712,693**	34,260,763

During the first quarter of fiscal 2016, the Company paid common dividends of $27.7 million (2015 - $24.9 million) to its equity holders. This represents a payment of $0.30 per share (2015 - $0.27 per share) for common share holders.

As at September 9, 2015, the Company had Non-Voting Class A and Class B common shares outstanding of 59,633,835 and 32,712,693, respectively, as well as 1,313,244 options to acquire in aggregate 1,313,244 Non-Voting Class A shares.

Normal Course Issuer Bid ("NCIB")

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

Accordingly, on March 12, 2015, the Company filed a notice of intent with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 1,788,584 Non-Voting Class A shares, representing approximately three percent of those outstanding, subject to obtaining regulatory approval. The purchases will be made through the facilities of the TSX. The price the Company will pay for any such shares will be the market price at the time of acquisition. Purchases may commence on March 17, 2015, and shall terminate not later than March 16, 2016. Empire has not repurchased any Non-Voting Class A shares since the date of notice.

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 risk and commodity risk. From time to time, the Company utilizes hedging instruments it deems appropriate to mitigate risk exposure and not for speculative purposes. The Company's use of these instruments has not had a material impact on earnings for the 13 weeks ended August 1, 2015 or for the comparative period in fiscal 2015.

When the Company, or its subsidiaries, enter 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 it deems appropriate should a counterparty's credit profile change materially.

The Company has applied hedge accounting to forward foreign currency contracts and interest rate swaps as of August 1, 2015. To mitigate the currency risk associated with some of the Sobeys' USD, Euro and British Pound ("GBP") purchases, Sobeys enters into forward currency contracts with staggered maturities to act as a hedge against the effect of the changes in the value of the CAD relative to other currencies.

Sobeys has also entered into a floating-for-floating currency swap with a fixed rate of $1.2775 CAD/USD to mitigate the currency risk associated with a USD denominated variable rate loan.

Additionally, Sobeys has an amortizing interest rate swap to hedge the interest on a portion of the Company's acquisition facility. The notional amount outstanding for the interest rate swap as at August 1, 2015 is $112.3 million, and the interest rate swap matures on December 31, 2015.

During the 13 weeks ended August 1, 2015, Sobeys recorded a nominal unrealized fair value gain in other comprehensive income related to the effective portion of these contracts.

Fair Value Methodology

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 of August 1, 2015 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.

ACCOUNTING STANDARDS AND POLICIES

These unaudited interim condensed consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 2, 2015.

Future Standards and Amendments

(i) *Financial instruments*

In July 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establishes an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is applied prospectively. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time.

(ii) *Revenue*

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related Interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time.

(iii) *Presentation of financial statements*

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing clarifying guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted, but the Company does not intend to do so at this time

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

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2015 annual MD&A.

Internal Control over Financial Reporting

Management of the Company, which includes the Chief Executive Officer ("CEO") and Chief Financial and Administrative Officer ("CFAO"), 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 (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission. As at August 1, 2015, the CEO and CFAO have evaluated the effectiveness of the Company's ICFR. Based on that evaluation, the CEO and CFAO have concluded that the Company's ICFR was effective as at August 1, 2015 and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in the Company's ICFR during the period beginning May 3, 2015 and ended August 1, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

RELATED PARTY TRANSACTIONS

The related party transactions between the Company and Crombie REIT, including ongoing leases, are discussed in detail in the fiscal 2015 annual MD&A. There have been no material changes to the specified contractual obligations between the Company and Crombie REIT in the first quarter of fiscal 2016.

CONTINGENCIES

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

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

RISK MANAGEMENT

Risk and uncertainties related to economic and industry factors and the Company's management of risk are discussed in detail in the fiscal 2015 annual MD&A.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 13 weeks ended August 1, 2015, the Company contributed $2.4 million (2015 – $2.7 million) to its registered defined benefit plans. The Company expects to contribute approximately $9.0 million in fiscal 2016 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

NON-GAAP FINANCIAL MEASURES

There are measures included in this MD&A that do not have a standardized meaning under 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 and EBITDA, are important indicators of Empire's ability to generate liquidity through operating cash flow to fund future working capital requirements, service outstanding debt, and fund future capital expenditures and uses these metrics for these purposes.

In addition, management undertakes to adjust certain of these and other measures, including EBITDA and net earnings in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure, by excluding 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. Non-GAAP financial measures should not be considered in isolation or used as a substitute for measures of performance prepared in accordance with GAAP. The Company's definitions of the non-GAAP terms included in this MD&A are as follows:

- 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.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA"), is calculated as net earnings, 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	
($ in millions)	**August 1, 2015**	August 2, 2014[(1)]
Operating income	**$ 195.5**	$ 219.4
Depreciation	**96.7**	100.9
Amortization of intangibles	**21.9**	22.2
EBITDA	**$ 314.1**	$ 342.5

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

- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance. These adjustments include items which are non-recurring or one-time in nature and items that result in a truer economic representation of the underlying business on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted 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.
- Adjusted EBITDA margin is adjusted EBITDA divided by sales.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income. 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			
($ in millions)		**August 1, 2015**		August 2, 2014[(1)]
Finance costs, net	**$**	**32.9**	$	43.6
Plus: finance income		**0.8**		0.7
Plus: fair value gains on forward contracts		**0.3**		-
Less: net pension finance costs		**(3.0)**		(3.1)
Less: accretion expense on provisions		**(3.2)**		(2.4)
Interest expense	**$**	**27.8**	$	38.8
Interest expense on financial liabilities measured at amortized cost	**$**	**27.7**	$	38.7
Losses on cash flow hedges reclassified from other comprehensive income		**0.1**		0.1
Interest expense	**$**	**27.8**	$	38.8

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

- Interest coverage is calculated as operating income divided by interest expense.

- Adjusted net earnings are net earnings, net of non-controlling interest, excluding items which are considered not indicative of underlying business operating performance. These adjustments include items which are non-recurring or one-time in nature and items that result in a truer economic representation of the underlying business on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted net earnings is reconciled in its respective subsection of the “Management’s Explanation of Consolidated Operating Results”, “Food Retailing” 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 ratio and net funded debt to net total capital ratios represent measures upon which the Company’s changing capital structure can be analyzed over time. Increasing ratios would indicate that the Company is using an increasing amount of debt in its capital structure to fund its operations.

The following tables reconcile the Company's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at August 1, 2015, May 2, 2015 and August 2, 2014, respectively:

($ in millions)	**August 1, 2015**	May 2, 2015[1]	August 2, 2014[1]
Long-term debt due within one year	**$ 333.2**	$ 53.9	$ 76.8
Long-term debt	**1,938.8**	2,237.0	3,093.2
Funded debt	**2,272.0**	2,290.9	3,170.0
Less: cash and cash equivalents	**(384.0)**	(295.9)	(390.2)
Net funded debt	**1,888.0**	1,995.0	2,779.8
Total shareholders' equity, net of non-controlling interest	**6,078.1**	5,983.8	5,775.3
Net total capital	**$ 7,966.1**	$ 7,978.8	$ 8,555.1

($ in millions)	**August 1, 2015**	May 2, 2015	August 2, 2014
Funded debt	**$ 2,272.0**	$ 2,290.9	$ 3,170.0
Total shareholders' equity, net of non-controlling interest	**6,078.1**	5,983.8	5,775.3
Total capital	**$ 8,350.1**	$ 8,274.7	$ 8,945.3

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

- 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 assess 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 August 1, 2015, May 2, 2015 and August 2, 2014.

($ in millions, except per share information)	**August 1, 2015**	May 2, 2015	August 2, 2014
Shareholders' equity, net of minority interest	**$ 6,078.1**	$ 5,983.8	$ 5,775.3
Shares outstanding (basic)	**92.338**	92.333	92.322
Book value per common share	**$ 65.82**	$ 64.81	$ 62.56

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

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: September 9, 2015
Stellarton, Nova Scotia, Canada