EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 13 WEEKS ENDED AUGUST 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") (TSX: EMP.A) and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 13 weeks ended August 6, 2016 compared to the 13 weeks ended August 1, 2015. 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 6, 2016 compared to the 13 weeks ended August 1, 2015 and the audited annual consolidated financial statements for the 53 weeks ended May 7, 2016 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 7, 2016, 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 15, 2016 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 53 weeks ended May 7, 2016 other than as noted in this MD&A.

FORWARD-LOOKING INFORMATION

This document contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Company's financial position and understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" and other similar expressions or the negative of these terms.

These forward-looking statements include, but are not limited to, the following items:

- The Company's expectations relating to the timing of mitigation and remediation of process integration and reorganizational changes at Safeway, which may be delayed by further unforeseen challenges;

- The Company's expectations relating to the operational challenges being faced primarily in Western Canada, which may be impacted by a number of factors including the under performance in fiscal 2016 and the effectiveness of future mitigating strategies employed;

- The Company's expectations relating to the shortfall of minimum purchases required on supply agreements that resulted from the disposal of manufacturing facilities in fiscal 2015. This could be impacted by the success of mitigation strategies being implemented in Western Canada, changes in actual purchase volumes and customer demand;

- The Company's expectations regarding the impact of organizational realignment, including expected efficiencies, cost savings and the impact on long-term earnings which could be impacted by the positions eliminated and the time required for employees to adapt to the changes;

- The Company's expectations regarding the cost savings related to the distribution centre restructuring, which could be impacted by the final number of closures and positions eliminated;

- Timing and value of expected cost savings, which may be impacted by a number of factors, including the effectiveness of ongoing cost stewardship initiatives;

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

- 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; and

- 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.

By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of this MD&A.

Although the Company believes 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. 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. The forward-looking information in this document reflects the Company's current expectations and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made by or on behalf of the Company other than as required by applicable securities laws.

OVERVIEW OF THE BUSINESS

Empire's key businesses and financial results are segmented into two separate reportable segments: (1) Food retailing and (2) Investments and other operations. With approximately $24.6 billion in annualized sales and $8.8 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 125,000 people.

Food Retailing

Empire's Food retailing segment is carried out through Sobeys, a wholly-owned subsidiary as of August 6, 2016. Proudly Canadian, with headquarters in Stellarton, Nova Scotia, Sobeys has been serving the food shopping needs of Canadians since 1907. Sobeys owns, affiliates or franchises more than 1,500 stores in all 10 provinces under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo., Thrifty Foods and Lawton's Drug Stores as well as more than 350 retail fuel locations. Sobeys' purpose is to help Canadians *Eat Better, Feel Better and Do Better.*

Challenges faced in the Western business unit over the past 15 months have resulted in an erosion in sales. Following the close of the Canada Safeway acquisition, the Company began the integration of the acquired business with existing operations which resulted in a number of issues that have had an impact on financial results. These business integration challenges were coupled with increased promotional activity, experienced during fiscal 2016 and the first quarter of fiscal 2017 negatively impacting results. Merchandising issues such as the private label conversion along with produce supply chain issues impacted the offerings being made to customers at store level and resulted in same-store sales(1) for the West business unit, excluding fuel, of (3.9) percent for the 13 weeks ended August 6, 2016.

These challenges are being aggressively addressed as mitigation plans continue to be developed and implemented. The Company introduced major initiatives in Western Canada designed to address sales erosion related to promotional activity and to build back customer loyalty. The *Better Produce at Lower Prices* and *Better Meat at Lower Prices* initiatives launched in the Safeway and Sobeys banners resulted in store pricing lowered on many items and aim to bring better quality, reduced prices and variety of choices to customers.

In addition to the factors discussed above, a shift around price sensitivity by consumers has also led to a downward trend in the Company's sales. Management is focused on improving the overall value proposition through important structural changes to the pricing model through our *Simplified Buy & Sell* program. This program was introduced in April 2016 in Quebec, implemented in Western Canada in September 2016 and will be rolling out across the country.

Cost stewardship initiatives are also underway to improve efficiencies so savings can be reinvested into improving customer experience. Sobeys continues to focus on improving a number of core initiatives and has a renewed focus on store execution, in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

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

Significant Items

Real Estate Divestitures

On June 29, 2016, Sobeys closed an agreement with Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which the Company has a 41.5 percent ownership, to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Crombie REIT also invested approximately $58.8 million in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. See the "Related Party Transactions Section" of this MD&A for further detail.

Sobeys sold two (2016 – one) properties and leased back one (2016 – one) from third parties during the first quarter of fiscal 2017. Total proceeds from these transactions were $31.7 million (2016 – $26.0 million), resulting in a pre-tax gain of $1.2 million (2016 – $8.9 million).

Other Items

The following list includes other significant items that have impacted the financial results of the Company for the 13 weeks ended August 6, 2016 and their comparative periods:

- During the fourth quarter of fiscal 2015, Sobeys completed a review of its business support functions and identified restructuring opportunities. This organizational realignment is designed to strengthen the support network by consolidating the majority of office functions and processes in Calgary. The Company has completed its staff selection and transition process for those employees. For the 13 weeks ended August 6, 2016, the Company recognized $2.7 million (2016 **–** $6.4 million) in severance costs associated with the organizational realignment;

- Costs were incurred of $2.1 million for the 13 weeks ended August 6, 2016 (2016 – $4.7 million) related to the identification of efficiencies with the distribution centre restructuring;

- The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement ("APA"), long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this APA, should actual purchases for the calendar year ending 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume-driven formula. Management believes that purchase volumes for the calendar year 2016 are unlikely to meet the minimum volume requirements based on operating results in the last two quarters of fiscal 2016. During the first quarter of fiscal 2017, management reviewed its fiscal 2016 estimated adjustment to the sales price and concluded the volume purchases continue to be in line with these expectations; therefore no further adjustment has been made. This provision will continue to be monitored and updated for any changes to estimated calendar year 2016 purchase volumes. The actual sales price adjustment could vary significantly from this estimate; and

- In fiscal 2016, management determined there were indicators of impairment in the West business unit as the result of significant negative trends in operating results of the Sobeys West operating segment and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. The Company recorded an impairment of long-lived assets of $148.6 million and an impairment of goodwill of $3,027.1 million. At the end of fiscal 2016, there was no remaining goodwill within the West business unit.

Investments and Other Operations

Empire's Investments and other operations segment, as of August 6, 2016, specifically included:

1. A 41.5 percent (40.3 percent fully diluted) equity accounted interest in Crombie REIT, an open-ended Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 283 retail and office properties across Canada, comprising approximately 19.4 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 39.0 percent equity accounted interest in GDC Investments 4, L.P., a 42.1 percent equity accounted interest in GDC Investments 6, L.P., a 39.0 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 review of Empire's consolidated financial performance for the 13 weeks ended August 6, 2016 compared to the 13 weeks ended August 1, 2015.

	13 Weeks Ended			
($ in millions, except per share amounts)	**August 6, 2016**	August 1 2015	$ Change	% Change
Sales	**$ 6,186.6**	$ 6,249.2	$ (62.6)	(1.0)%
Gross profit[1]	**1,490.8**	1,516.0	(25.2)	(1.7)%
EBITDA[2]	**238.3**	314.1	(75.8)	(24.1)%
Adjusted EBITDA[2]	**243.1**	325.2	(82.1)	(25.2)%
Operating income	**126.6**	195.5	(68.9)	(35.2)%
Finance costs, net	**31.2**	32.9	(1.7)	(5.2)%
Income tax expense	**17.8**	43.5	(25.7)	(59.1)%
Non-controlling interest	**12.2**	10.3	1.9	18.4%
Net earnings[3]	**65.4**	108.8	(43.4)	(39.9)%
Adjusted net earnings[2][3]	**73.6**	121.7	(48.1)	(39.5)%
Basic earnings per share				
Net earnings[3]	**$ 0.24**	$ 0.39	$ (0.15)	
Adjusted net earnings[2][3]	**$ 0.27**	$ 0.44	$ (0.17)	
Basic weighted average number of shares outstanding (in millions)	**271.7**	277.0		
Diluted earnings per share				
Net earnings[3]	**$ 0.24**	$ 0.39	$ (0.15)	
Adjusted net earnings[2][3]	**$ 0.27**	$ 0.44	$ (0.17)	
Diluted weighted average number of shares outstanding (in millions)	**271.7**	277.5		
Dividend per share	**$ 0.1025**	$ 0.1000	$	

	13 Weeks Ended	
(% of sales)	**August 6, 2016**	August 1, 2015
Gross profit	**24.1%**	24.3%
EBITDA	**3.9%**	5.0%
Adjusted EBITDA	**3.9%**	5.2%
Operating income	**2.0%**	3.1%
Net earnings[3]	**1.1%**	1.7%
Adjusted net earnings[3]	**1.2%**	1.9%

(1) Gross profit amounts and corresponding ratios are calculated using the Food retailing segment results.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) Net of non-controlling interest.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

Sales

All sales are generated by the Food retailing segment. The decrease in sales for the 13 weeks ended August 6, 2016 was primarily the result of the following factors:

- Continued negative impact of merchandising and promotional strategies in Western Canada;
- Soft sales trend in most of the store network;
- Economic downturn in areas that have been impacted by decreasing oil prices; and
- Decline in oil prices impacting fuel sales.

This decrease was partially offset by food inflation.

During the 13 weeks ended August 6, 2016, same-store sales excluding the negative impact of fuel sales decreased 1.2 percent from the same period last year, same-store sales overall decreased 1.8 percent. Excluding fuel and the retail West business unit, same-store sales would have increased 0.6 percent.

Gross Profit

The decrease in gross margin during the 13 weeks ended August 6, 2016 was a result of the factors impacting sales above. Gross margin was also impacted by the following factors:

- A highly promotional environment; and
- Continued competitive intensity.

EBITDA

EBITDA decreased in the 13 weeks ended August 6, 2016 mainly as a result of the previously mentioned factors affecting sales and gross margin, as well as general increases in selling and administrative expenses. Selling and administrative expenses as a percentage of sales has increased due to the impact of the soft sales realized across the network.

($ in millions)	13 Weeks Ended **August 6, 2016**	 August 1, 2015	$ Change
EBITDA	**$ 238.3**	$ 314.1	$ (75.8)
Adjustments:			
Organizational realignment costs	**2.7**	6.4	
Distribution centre restructuring	**2.1**	4.7	
	4.8	11.1	(6.3)
Adjusted EBITDA	**$ 243.1**	$ 325.2	$ (82.1)

Operating Income

For the 13 weeks ended August 6, 2016, operating income decreased due to the factors affecting sales, gross profit and EBITDA, as discussed previously.

Finance Costs

For the first quarter of fiscal 2017, finance costs, net of finance income remained consistent with the same period last year. Interest coverage(1) in the first quarter decreased to 4.9 times from 7.0 times in the first quarter of fiscal 2016, as a result of decreased operating income.

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

Income Taxes

The Company's effective income tax rate for the first quarter was 18.7 percent compared to 26.8 percent in the same period last year. The reduction is attributable to the tax consequences arising from the sale and leaseback of retail properties to Crombie REIT on a tax deferred basis further described in the "Related Party Transactions" section of this MD&A.

Net Earnings

For the 13 weeks ended August 6, 2016, net earnings, net of non-controlling interest, were primarily impacted by the reasons noted in the sales, gross profit and EBITDA sections above.

	13 Weeks Ended		$
($ in millions, except per share amounts)	**August 6, 2016**	August 1, 2015	Change
Net earnings [1]	**$ 65.4**	$ 108.8	$ (43.4)
EPS (fully diluted)[2]	**0.24**	0.39	(0.15)
Adjustments:[3]			
Intangible amortization associated with the Canada Safeway acquisition	**4.7**	4.8	
Organizational realignment costs	**2.0**	4.6	
Distribution centre restructuring	**1.5**	3.5	
	8.2	12.9	(4.7)
Adjusted net earnings[1]	**$ 73.6**	$ 121.7	$ (48.1)
Adjusted EPS (fully diluted)	**$ 0.27**	$ 0.44	$ (0.17)
Diluted weighted average number of shares outstanding (in millions)	**271.7**	277.5	

(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 6, 2016 compared to the 13 weeks ended August 1, 2015.

The following financial information is Sobeys' contribution to Empire as the amounts are net of consolidation adjustments, which include a purchase price allocation from the privatization of Sobeys.

	13 Weeks Ended			
($ in millions)	**August 6, 2016**	August 1, 2015	$ Change	% Change
Sales	**$ 6,186.6**	$ 6,249.2	$ (62.6)	(1.0)%
Gross profit	**1,490.8**	1,516.0	(25.2)	(1.7)%
EBITDA	**223.4**	303.1	(79.7)	(26.3)%
Adjusted EBITDA	**228.2**	314.2	(86.0)	(27.4)%
Operating income	**111.8**	184.6	(72.8)	(39.4)%
Net earnings(1)	**56.6**	101.4	(44.8)	(44.2)%
Adjusted net earnings(1)	**64.8**	114.3	(49.5)	(43.3)%

(1) Net of non-controlling interest.

Sales

The decrease in sales for the 13 weeks ended August 6, 2016 was primarily the result of the following factors:

- Continued negative impact of merchandising and promotional strategies in Western Canada;
- Soft sales trend in most of the store network;
- Economic downturn in areas that have been impacted by decreasing oil prices; and
- Decline in oil prices impacting fuel sales.

This decrease was partially offset by food inflation.

During the 13 weeks ended August 6, 2016, same-store sales excluding the negative impact of fuel sales decreased 1.2 percent from the same period last year, same-store sales overall decreased 1.8 percent. Excluding fuel and the retail West business unit, same-store sales would have increased 0.6 percent.

Gross Profit

The decrease in gross margin during the 13 weeks ended August 6, 2016 was a result of the factors impacting sales above. Gross margin was also impacted by the following factors:

- A highly promotional environment; and
- Continued competitive intensity.

EBITDA

EBITDA decreased in the 13 weeks ended August 6, 2016 mainly as a result of the previously mentioned factors affecting sales and gross margin, as well as general increases in selling and administrative expenses. Selling and administrative expenses as a percentage of sales has increased due to the impact of the soft sales realized across the network.

	13 Weeks Ended		$
($ in millions)	**August 6, 2016**	August 1, 2015	Change
EBITDA	**$ 223.4**	$ 303.1	$ (79.7)
Adjustments:			
Organizational realignment costs	**2.7**	6.4	
Distribution centre restructuring	**2.1**	4.7	
	4.8	11.1	(6.3)
Adjusted EBITDA	**$ 228.2**	$ 314.2	$ (86.0)

Operating Income

For the 13 weeks ended August 6, 2016, operating income decreased due to the factors affecting sales, gross profit and EBITDA, as discussed previously.

Net Earnings

For the 13 weeks ended August 6, 2016, net earnings, net of non-controlling interest, were primarily impacted by the reasons noted in the sales, gross profit and EBITDA sections above.

	13 Weeks Ended		$
($ in millions)	**August 6, 2016**	August 1, 2015	Change
Net earnings(1)	**$ 56.6**	$ 101.4	$ (44.8)
Adjustments:(2)			
Intangible amortization associated with the Canada Safeway acquisition	**4.7**	4.8	
Organizational realignment costs	**2.0**	4.6	
Distribution centre restructuring	**1.5**	3.5	
	8.2	12.9	(4.7)
Adjusted net earnings(1)	**$ 64.8**	$ 114.3	$ (49.5)

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

Investments and Other Operations

($ in millions)	13 Weeks Ended **August 6, 2016**	August 1, 2015	$ Change
Operating income			
Crombie REIT [1]	**$ 11.2**	$ 7.4	$ 3.8
Real estate partnerships [2]	**5.7**	4.9	0.8
Other operations, net of corporate expenses	**(2.1)**	(1.4)	(0.7)
	$ 14.8	$ 10.9	$ 3.9

(1) 41.5 percent equity accounted interest in Crombie REIT (August 1, 2015 – 41.5 percent interest).
(2) Interests in Genstar.

Operating Income

For the 13 weeks ended August 6, 2016, the increase in operating income from Investments and other operations can be attributed to stronger operating results by Crombie REIT combined with reduced impairment charges compared to the same quarter last year.

Investment Portfolio

At August 6, 2016, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	August 6, 2016			May 7, 2016			August 1, 2015		
($ in millions)	**Fair Value**	**Carrying Value**	**Unrealized Gain**	Fair Value	Carrying Value	Unrealized Gain	Fair Value	Carrying Value	Unrealized Gain
Investment in associates									
Crombie REIT[1]	**$ 937.5**	**$ 460.2**	**$ 477.3**	$ 786.0	$ 366.8	$ 419.2	$ 687.8	$ 362.1	$ 325.7
Canadian real estate partnerships[2]	**151.9**	**151.9**	**-**	148.5	148.5	-	141.8	141.8	-
U.S. real estate partnerships[2]	**47.0**	**47.0**	**-**	50.2	50.2	-	54.3	54.3	-
Investment in joint ventures									
Canadian Digital Cinema Partnership[2]	**9.4**	**9.4**	**-**	9.4	9.4	-	9.4	9.4	-
	$ 1,145.8	**$ 668.5**	**$ 477.3**	$ 994.1	$ 574.9	$ 419.2	$ 893.3	$ 567.6	$ 325.7

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of August 5, 2016.
(2) Assumes fair value equals carrying value.

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 2017 Q1 (13 Weeks) Aug. 6, 2016**	Fiscal 2016 Q4 (14 Weeks) May 7, 2016	Fiscal 2016 Q3 (13 Weeks) Jan. 31, 2016	Fiscal 2016 Q2 (13 Weeks) Oct. 31, 2015	Fiscal 2016 Q1 (13 Weeks) Aug. 1, 2015	Fiscal 2015[1] Q4 (13 Weeks) May 2, 2015	Fiscal 2015[1] Q3 (13 Weeks) Jan. 31, 2015	Fiscal 2015[1] Q2 (13 Weeks) Nov. 1, 2014
Sales	**$ 6,186.6**	$ 6,283.2	$ 6,027.2	$ 6,059.2	$ 6,249.2	$ 5,770.5	$ 5,940.5	$ 5,995.1
EBITDA[2]	**238.3**	(1,047.2)	(1,467.9)	256.3	314.1	236.3	322.3	323.8
Operating income (loss)	**126.6**	(1,160.2)	(1,589.8)	136.0	195.5	115.9	203.4	203.7
Net earnings (loss)[3]	**$ 65.4**	$ (942.6)	$ (1,365.7)	$ 68.5	$ 108.8	$ 55.4	$ 123.6	$ 116.9
Per share information, basic								
Net earnings (loss)[3][4]	**$ 0.24**	$ (3.47)	$ (5.03)	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42
Basic weighted average number of shares outstanding (in millions)	**271.7**	271.7	271.7	275.2	277.0	277.0	277.0	277.0
Per share information, diluted								
Net earnings (loss)[3][4]	**$ 0.24**	$ (3.47)	$ (5.03)	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42
Diluted weighted average number of shares outstanding (in millions)	**271.7**	271.7	271.8	275.5	277.5	277.5	277.2	277.0

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated statement of earnings.
(2) EBITDA is reconciled to net earnings (loss), net of non-controlling interest, for the current and comparable period in the "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) Net of non-controlling interest.
(4) The weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

When reviewing financial results for comparable periods:

- The results of the first quarter for fiscal 2017 compared to the same period in fiscal 2016 were lower due to a number of factors including challenges faced in the West business unit and soft sales trends in most of the store network.

- The results of the second quarter of fiscal 2016 show increased sales, but a decrease in operating income and net earnings, net of non-controlling interest, when compared to the same quarter in fiscal 2015. This was the result of the significant challenges for the organization to adapt to the pervasive changes from the integration of Safeway operations, the continued negative impact of merchandising and promotional strategies for the West business unit and the provision recorded in the second quarter for manufacturing sales agreements as previously mentioned.

- The results of the third and fourth quarters of fiscal 2016 show increased sales, but an operating loss and a net loss, net of non-controlling interest, when compared to the same quarters in fiscal 2015. This was the result of the impairment charges the Company recorded in each quarter totalling $148.6 million for long-lived assets and $3,027.1 million for goodwill, representing the write-down of certain store assets in the Sobeys West operating segment and related goodwill to their recoverable amount. Results for the fourth quarter of 2016 were positively impacted by an additional week of operations. Results for the fourth quarter of 2015 were impacted by the network rationalization, downward pressure on fuel sales from declining oil prices and Competition Bureau imposed divestitures associated with the Canada Safeway acquisition.

Management has recognized the significant operational challenges faced during fiscal 2016 and their remediation continues to be a top priority for fiscal 2017. Strategies continue to be deployed in order to optimize the execution of our store level offerings, to realize the benefits and efficiencies from our distribution centre restructuring and through continued work on reduction of the Company's cost structure.

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 (loss) and net earnings (loss), net of non-controlling interest, have been influenced by impairments recorded, 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 of the fiscal 2016 annual MD&A.

LIQUIDITY AND CAPITAL RESOURCES

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

	13 Weeks Ended		$
($ in millions)	**August 6, 2016**	August 1, 2015[1]	Change
Cash flows from operating activities	**$ 239.3**	$ 316.5	$ (77.2)
Cash flows from (used in) investing activities	**257.8**	(163.0)	420.8
Cash flows used in financing activities	**(481.7)**	(65.4)	(416.3)
Increase in cash and cash equivalents	**$ 15.4**	$ 88.1	$ (72.7)

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

Operations

The decrease in cash flows from operating activities for the 13 weeks ended August 6, 2016 was primarily the result of a decline in net earnings as previously discussed.

Free Cash Flow

Management uses free cash flow[1] as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities.

	13 Weeks Ended		$
($ in millions)	**August 6, 2016**	August 1, 2015[2]	Change
Cash flows from operating activities	**$ 239.3**	$ 316.5	$ (77.2)
Add: proceeds on disposal of property, equipment and investment	**342.6**	43.9	298.7
Less: property, equipment and investment property purchases	**(126.3)**	(142.9)	16.6
Free cash flow	**$ 455.6**	$ 217.5	$ 238.1

The increase in free cash flow for the 13 weeks ended August 6, 2016 was the result of an increase in proceeds on disposal of property, equipment and investment property primarily due to the agreement entered into with Crombie REIT as previously discussed.

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

Investment

The increase in cash from investing activities in the 13 weeks ended August 6, 2016 was mainly due to a sale leaseback agreement entered into with Crombie REIT as previously discussed. This increased cash proceeds on disposal of property, equipment and investment property and tenant inducements from Crombie REIT.

The table below outlines the number of stores Sobeys invested in during the 13 weeks ended August 6, 2016 compared to the 13 weeks ended August 1, 2015.

	13 Weeks Ended	
# of stores	**August 6, 2016**	August 1, 2015
Opened/relocated/acquired	**14**	17
Expanded	**5**	5
Rebannered/redeveloped	**12**	11
Closed – normal course of operations	**12**	7

The following table shows Sobeys' square footage changes for the 13 and 53 weeks ended August 6, 2016 by type:

Square feet (in thousands)	13 Weeks Ended August 6, 2016	53 Weeks Ended August 6, 2016
Opened	**38**	813
Relocated	**52**	214
Acquired	**38**	158
Expanded	**20**	98
Closed – normal course of operations	**(128)**	(385)
Net change before the impact of the network rationalization	**20**	898
Closed – network rationalization	**-**	(93)
Net change with the impact of the network rationalization	**20**	805

At August 6, 2016, Sobeys' square footage totalled 38.6 million, a 2.1 percent increase over the 37.8 million square feet operated at August 1, 2015.

Financing

The cash used in financing activities during the 13 weeks ended August 6, 2016 increased from the same period of fiscal 2016, primarily due to the repayment of $355.0 million on the Sobeys' revolving long-term credit facility ("RT Facility") and the repayment of $300.0 million on the senior unsecured notes. This was partially offset by $155.0 million drawn on the RT Facility and $96.0 million drawn on the Company's credit facility.

Employee Future Benefit Obligations

For the 13 weeks ended August 6, 2016, the Company contributed $2.2 million (2016 – $2.4 million) to its registered defined benefit pension plans. The Company expects to contribute approximately $10.0 million in fiscal 2017 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		**August 6, 2016**		May 7, 2016[1]		August 1, 2015
Shareholders' equity, net of non-controlling interest	**$**	**3,661.8**	$	3,621.0	$	6,078.1
Book value per common share[2]	**$**	**13.48**	$	13.33	$	21.94
Long-term debt, including current portion	**$**	**1,936.9**	$	2,367.4	$	2,272.0
Funded debt to total capital[2]		**34.6%**		39.5%		27.2%
Net funded debt to net total capital[2]		**31.2%**		36.7%		23.7%
Funded debt to adjusted EBITDA[2][3]		**1.8x**		2.0x		1.7x
Adjusted EBITDA to interest expense[2][4]		**9.6x**		10.2x		10.4x
Current assets to current liabilities		**0.9x**		1.0x		0.8x
Total assets	**$**	**8,842.5**	$	9,102.0	$	11,632.3
Total non-current financial liabilities	**$**	**2,630.2**	$	2,702.3	$	2,653.5

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

The ratio of funded debt to total capital decreased to 34.6 percent at August 6, 2016 from 39.5 percent at May 7, 2016.

The funded debt to adjusted EBITDA ratio decreased to 1.8 times compared to 2.0 times at May 7, 2016. The decrease in the adjusted EBITDA to interest expense coverage ratio (9.6 times versus 10.2 times at May 7, 2016) was the result of lower trailing 12-month interest expense ($112.3 million versus $114.0 million at May 7, 2016) and a lower trailing 12-month adjusted EBITDA ($1,079.3 million versus $1,164.4 million at May 7, 2016).

The Company's ratio of current assets to current liabilities decreased to 0.9 times from 1.0 times at May 7, 2016.

Sobeys' current credit ratings are BBB (low) with a stable trend from Dominion Bond Rating Service ("DBRS") and BBB- with a negative outlook from Standard and Poor's ("S&P").

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 6, 2016.

Shareholders' Equity

The Company's share capital was comprised of the following on August 6, 2016:

	Authorized Authorized Number of 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	768,105,849	173,537,901	2,037.8
Class B common shares, without par value, voting	122,400,000	98,138,079	7.3
			$ 2,045.1

The decrease in shareholders' equity, net of non-controlling interest, of $2,416.3 million from fiscal 2016 primarily reflects the decrease in retained earnings from the impairments of goodwill and long-lived assets recorded, along with the Non-Voting Class A share repurchases under the normal course issuer bid of $148.1 million and dividends paid of $109.5 million. Book value per common share was $13.48 at August 6, 2016 compared to $21.94 at August 1, 2015.

The Company's share capital on August 6, 2016 compared to the same period in the last fiscal year is shown in the table below.

	13 Weeks Ended	
(Number of Shares)	**August 6, 2016**	August 1, 2015
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**173,537,901**	178,862,211
Issued during period	**-**	39,294
Issued and outstanding, end of period	**173,537,901**	178,901,505
Class B common shares		
Issued and outstanding, beginning of period	**98,138,079**	98,138,079
Issued during period	**-**	-
Total Issued and outstanding, end of period	**98,138,079**	98,138,079

During the first quarter of fiscal 2017, the Company paid common dividends of $27.8 million (2016 – $27.7 million) to its equity holders. This represents a payment of $0.1025 per share (2016 – $0.1000 per share) for common share holders.

As at September 15, 2016, the Company had Non-Voting Class A and Class B common shares outstanding of 173,537,901 and 98,138,079, respectively, as well as 5,198,063 options to acquire in aggregate 5,198,063 Non-Voting Class A shares.

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 7, 2016.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2016 annual MD&A.

Internal Control over Financial Reporting

Management of the Company, which includes the Interim President & Chief Executive Officer and Interim 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 (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in the Company's ICFR during the period beginning May 8, 2016 and ended August 6, 2016 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 2016 annual MD&A. There have been no material changes to the specified contractual obligations between the Company and Crombie REIT during the first quarter of fiscal 2016, other than as described below.

On June 29, 2016, Sobeys and its wholly-owned subsidiaries closed an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50 percent interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Crombie REIT also invested approximately $58.8 million in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. In addition to cash, Crombie REIT issued to a subsidiary of Sobeys $93.4 million in value of Class B LP units and attached special voting units of Crombie REIT at a price of $14.70 per unit. The subsidiary of Sobeys subsequently sold its Class B LP units to Empire on a tax deferred basis. Total net cash proceeds to the Company and its wholly-owned subsidiaries from these transactions with Crombie REIT were $323.8 million, resulting in a pre-tax loss of $0.8 million which has been recognized in the condensed consolidated statements of earnings. Proceeds from the transactions were used to repay the senior unsecured notes.

On July 29, 2016, Sobeys, through a wholly-owned subsidiary, sold and leased back an additional property from Crombie REIT for cash consideration of $26.4 million. This resulted in a pre-tax gain of $2.1 million, which has been recognized in the condensed consolidated statements of earnings. Sobeys also purchased one property from Crombie REIT for $9.1 million.

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 2016 annual MD&A.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

NON-GAAP FINANCIAL MEASURES & FINANCIAL METRICS

There are measures and metrics included in this MD&A that do not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. Management believes that certain of these measures and metrics, including gross profit and EBITDA, are important indicators of Empire's ability to generate liquidity through operating cash flow to fund future working capital requirements, service outstanding debt and fund future capital expenditures and uses these metrics for these purposes.

In addition, management adjusts measures and metrics, including EBITDA and net earnings in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure, by excluding certain items. These items could impact the analysis of trends in performance and affect the comparability of our financial results. By excluding these items, management is not implying they are non-recurring.

Financial Measures

The intent of Non-GAAP Financial Measures is to provide additional useful information to investors and analysts. Non-GAAP Financial Measures should not be considered in isolation or used as a substitute for measures of performance prepared in accordance with GAAP. The Company's definitions of the non-GAAP terms included in this MD&A are as follows:

- Gross profit is calculated as sales less cost of sales.

- Earnings before interest, taxes, depreciation and amortization ("EBITDA"), is calculated as net earnings, before finance costs (net of finance income), income tax expense, depreciation and amortization of intangibles. The exclusion of depreciation and amortization of intangibles partially eliminates the non-cash impact from operating income.

The following table reconciles GAAP measures to EBITDA:

	13 Weeks Ended	
($ in millions)	**August 6, 2016**	August 1, 2015
Net earnings	**$ 77.6**	$ 119.1
Income taxes expense	**17.8**	43.5
Finance costs, net	**31.2**	32.9
Operating income	**126.6**	195.5
Depreciation	**89.1**	96.7
Amortization of intangibles	**22.6**	21.9
EBITDA	**$ 238.3**	$ 314.1

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance. These adjustments result in a truer economic representation on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the "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 GAAP measures to interest expense:

	13 Weeks Ended	
($ in millions)	**August 6, 2016**	August 1, 2015
Finance costs, net	**$ 31.2**	$ 32.9
Plus: finance income	**1.6**	1.1
Less: net pension finance costs	**(2.9)**	(3.0)
Less: accretion expense on provisions	**(3.8)**	(3.2)
Interest expense	**$ 26.1**	$ 27.8
Interest expense on financial liabilities measured at amortized cost	**$ 26.1**	$ 27.7
Losses on cash flow hedges reclassified reclassified from other comprehensive income	**-**	0.1
Interest expense	**$ 26.1**	$ 27.8

- Adjusted net earnings are net earnings, net of non-controlling interest, excluding certain items to better analyze trends in performance and financial results. These adjustments result in a truer economic representation of the underlying business on a comparative basis. The Company no longer adjusts for items that are insignificant to current period results or the comparative period. Adjusted net earnings is reconciled 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.

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

- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances and long-term debt. Management believes that funded debt represents the best indicator of the Company's total financial obligations on which interest payments are made.

- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company's financial obligations after 100 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.

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 6, 2016, May 7, 2016 and August 1, 2015, respectively:

($ in millions)	**August 6, 2016**	May 7, 2016(1)	August 1, 2015
Long-term debt due within one year	**$ 57.8**	$ 350.4	$ 333.2
Long-term debt	**1,879.1**	2,017.0	1,938.8
Funded debt	**1,936.9**	2,367.4	2,272.0
Less: cash and cash equivalents	**(280.1)**	(264.7)	(384.0)
Net funded debt	**1,656.8**	2,102.7	1,888.0
Total shareholders' equity, net of non-controlling interest	**3,661.8**	3,621.0	6,078.1
Net total capital	**$ 5,318.6**	$ 5,723.7	$ 7,966.1

($ in millions)	**August 6, 2016**	May 7, 2016(1)	August 1, 2015
Funded debt	**$ 1,936.9**	$ 2,367.4	$ 2,272.0
Total shareholders' equity, net of non-controlling interest	**3,661.8**	3,621.0	6,078.1
Total capital	**$ 5,598.7**	$ 5,988.4	$ 8,350.1

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

Financial Metrics

The intent of the following Non-GAAP Financial Metrics is to provide additional useful information to investors and analysts. Management uses financial metrics for decision making, internal reporting, budgeting and forecasting. The Company's definitions of the metrics included in this MD&A are as follows:

- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of cost control and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.
- Interest coverage is calculated as operating income divided by interest expense.
- Funded debt to total capital ratio is funded debt divided by total capital.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that funded debt to total capital 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.
- Funded debt to adjusted EBITDA ratio is funded debt divided by trailing four-quarter adjusted EBITDA. Management uses this ratio to partially assess the financial condition of the Company. An increasing ratio would indicate that the Company is utilizing more debt per dollar of adjusted EBITDA generated.
- Adjusted EBITDA to interest expense ratio is trailing four-quarter adjusted EBITDA divided by trailing four-quarter interest expense. Management uses this ratio to partially assess the coverage of its interest expense on financial obligations. An increasing ratio would indicate that the Company is generating more adjusted EBITDA per dollar of interest expense, resulting in greater interest coverage.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.

The following table shows the calculation of Empire's book value per common share as at August 6, 2016, May 7, 2016 and August 1, 2015.

($ in millions, except per share information)		**August 6, 2016**		May 7, 2016		August 1, 2015
Shareholders' equity, net of non-controlling interest	**$**	**3,661.8**	$	3,621.0	$	6,078.1
Shares outstanding (basic)		**271.7**		271.7		277.0
Book value per common share	**$**	**13.48**	$	13.33	$	21.94

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

Approved by Board of Directors: September 15, 2016
Stellarton, Nova Scotia, Canada