EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 13 AND 26 WEEKS ENDED OCTOBER 31, 2015

Forward-Looking Information 1
Overview of the Business 3
Food Retailing 3
Investments and Other Operations 5
Consolidated Operating Results 5
Management's Explanation of Consolidated Operating Results 6
Sales 6
EBITDA 6
Operating Income 7
Finance Costs 7
Income Taxes 7
Net Earnings 7
Financial Performance by Segment 8
Food Retailing 8
Investments and Other Operations 10
Quarterly Results of Operations 11
Liquidity and Capital Resources 12
Operations 12
Free Cash Flow 12
Investment 13
Financing 13
Employee Future Benefit Obligations 14
Consolidated Financial Condition 14
Capital Structure 14
Key Financial Condition Measures 14
Shareholders' Equity 15
Financial Instruments 16
Accounting Standards and Policies 17
Critical Accounting Estimates 17
Internal Control over Financial Reporting 17
Related Party Transactions 17
Contingencies 17
Risk Management 17
Subsequent Event 18
Designation for Eligible Dividends 18
Non-GAAP Financial Measures & Financial Metrics 18
Financial Measures 18
Financial Metrics 20

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 and 26 weeks ended October 31, 2015 compared to the 13 and 26 weeks ended November 1, 2014. It should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the 13 and 26 weeks ended October 31, 2015, compared to the 13 and 26 weeks ended November 1, 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 December 8, 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 relating to the timing of mitigation and remediation 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 expectations relating to the operational challenges being faced in Western Canada, primarily in the Safeway banner, which may be impacted by a number of factors including the under performance in the first half of fiscal 2016 and 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;

- Timing and value of expected synergies from the Canada Safeway acquisition, which may be impacted by a number of factors, including the effectiveness of ongoing integration efforts;

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

- 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 and final number of closures and realization of synergies;

- 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.

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.

The Company 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 December 8, 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 October 31, 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 second 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 and 26 weeks ended October 31, 2015, Sobeys opened, relocated, acquired, expanded, rebannered, and/or redeveloped the banners in 60 and 93 stores (2015 – 26 and 52 stores).

Significant Items

Safeway Integration[(1)]

Following the close of the Canada Safeway acquisition, the Company began the process of integrating the acquired business with the Company's current operations. This integration continues to present challenges, as there were organizational, training and educational gaps related to the information technology system and process integration of the acquired business that were identified by the Company in the first quarter of fiscal 2016. These business integration challenges were coupled with operational challenges experienced, during the second quarter of fiscal 2016. Merchandising and marketing strategies implemented impacted offerings being made to customers at store level. These strategies have negatively impacted same-store sales for the Safeway banner and resulted in both sales and earnings erosion. These challenges are being addressed and mitigation plans are being put into place.

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

In addition, during the fourth quarter of fiscal 2015, the Company completed a review of its business support network, which identified restructuring opportunities. This ongoing organizational realignment will strengthen the business support network by consolidating the majority of office functions and processes in Calgary and is expected to improve net earnings long-term as a result of cost savings and maximize the efficiency of the network. These anticipated long-term benefits were not without short-term challenges. Uncertainty in the workforce had an impact on operational efficiencies and productivity for Safeway banner operations. The Company has finalized its staff selection process and is diligently working through transition plans with employees. For the 13 and 26 weeks ended October 31, 2015, the Company recognized $7.1 million and $13.5 million in severance costs associated with the organizational realignment.

Manufacturing Sales Adjustments(1)

The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement, long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this asset purchase agreement, should actual purchases for the calendar year ended 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume-driven formula. Given the operating results experienced in the first half of fiscal 2016, management believes that purchases in calendar 2016 are unlikely to meet the minimum volume requirements and, accordingly, have recorded a provision of $39.7 million to reflect the estimated adjustment to the sales price. This provision will continue to be monitored and updated for any changes to estimated calendar 2016 purchase volumes. The actual sales price adjustment could vary significantly from this estimate.

Upon finalization of the purchase price adjustment, the minimum volume requirements for the remainder of the long-term supply agreements will be determined. Management does not expect there to be future financial exposure associated with the long-term supply agreements.

Share Split

On September 28, 2015, the Company effected a three-for-one share split by delivering two additional shares for each share held by Non-Voting Class A and Class B shareholders of record as of the close of business on September 21, 2015. Non-Voting Class A shares commenced trading on a split basis as of September 29, 2015. All number of share and per share amounts have been restated in this MD&A to reflect the share split.

Other Items

The following list includes other significant items that continued to have an impact on the financial results of the Company for the 13 and 26 weeks ended October 31, 2015 and their comparative periods:

- Cost saving synergies of $55.5 million and $106.5 million (2015 – $31.5 million and $59.7 million) associated with the Canada Safeway acquisition during the 13 and 26 weeks ended October 31, 2015;
- Increased sales as a result of the Co-op Atlantic acquisition and the associated long-term supply and franchise agreements during the first half of fiscal 2016;
- Efficiencies related to the distribution centre restructuring continue to be identified and costs were incurred of $0.6 million and $5.3 million for the 13 and 26 weeks ended October 31, 2015 (2015 – $ nil and $ nil); and
- The retail store network rationalization which resulted in 42 store closures in fiscal 2015, representing 1.3 million square feet, had a negative impact on total sales for the 13 and 26 weeks ended October 31, 2015 when compared to the same periods in the prior year.

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

Investments and Other Operations

Empire's investments and other operations segment, as of October 31, 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 260 retail and office properties across Canada, comprising approximately 17.6 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 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

($ in millions, except per share amounts)	13 Weeks Ended				26 Weeks Ended			
	Oct. 31, 2015	Nov. 1, 2014[1]	$ Change	% Change	**Oct. 31, 2015**	Nov. 1, 2014[1]	$ Change	% Change
Sales	**$ 6,059.2**	$ 5,995.1	$ 64.1	1.1%	**$ 12,308.4**	$ 12,217.8	$ 90.6	0.7%
Gross Profit[2]	**1,473.6**	1,480.7	(7.1)	(0.5)%	**2,989.6**	3,026.5	(36.9)	(1.2)%
EBITDA[2]	**256.3**	323.8	(67.5)	(20.8)%	**570.4**	666.3	(95.9)	(14.4)%
Adjusted EBITDA[2]	**303.7**	331.0	(27.3)	(8.2)%	**628.9**	673.5	(44.6)	(6.6)%
Operating income	**136.0**	203.7	(67.7)	(33.2)%	**331.5**	423.1	(91.6)	(21.6)%
Finance costs, net	**34.3**	40.5	(6.2)	(15.3)%	**67.2**	84.1	(16.9)	(20.1)%
Income taxes	**30.1**	41.2	(11.1)	(26.9)%	**73.6**	85.6	(12.0)	(14.0)%
Non-controlling interest	**3.1**	5.1	(2.0)	(39.2)%	**13.4**	13.4	-	-
Net earnings[3]	**68.5**	116.9	(48.4)	(41.4)%	**177.3**	240.0	(62.7)	(26.1)%
Adjusted net earnings[2][3]	**110.7**	126.6	(15.9)	(12.6)%	**232.4**	255.7	(23.3)	(9.1)%
Basic earnings per share								
Net earnings[3]	**$ 0.25**	$ 0.42	$ (0.17)		**$ 0.64**	$ 0.87	$ (0.23)	
Adjusted net earnings[2][3]	**$ 0.40**	$ 0.46	$ (0.06)		**$ 0.84**	$ 0.92	$ (0.08)	
Basic weighted average number of shares outstanding (in millions)	**275.2**	277.0			**276.1**	277.0		
Diluted earnings per share								
Net earnings[3]	**$ 0.25**	$ 0.42	$ (0.17)		**$ 0.64**	$ 0.87	$ (0.23)	
Adjusted net earnings[2][3]	**$ 0.40**	$ 0.46	$ (0.06)		**$ 0.84**	$ 0.92	$ (0.08)	
Diluted weighted average number of shares outstanding (in millions)	**275.5**	277.0			**276.5**	277.1		
Dividend per share	**$ 0.10**	$ 0.09			**$ 0.20**	$ 0.18		

(% of sales)	13 Weeks Ended		26 Weeks Ended	
	Oct. 31, 2015	Nov. 1, 2014	**Oct. 31, 2015**	Nov. 1, 2014
Gross Profit	**24.3%**	24.7%	**24.3%**	24.8%
EBITDA	**4.2%**	5.4%	**4.6%**	5.5%
Adjusted EBITDA	**5.0%**	5.5%	**5.1%**	5.5%
Operating income	**2.2%**	3.4%	**2.7%**	3.5%
Net earnings[3]	**1.1%**	1.9%	**1.4%**	2.0%
Adjusted net earnings[3]	**1.8%**	2.1%	**1.9%**	2.1%

(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 & Financial Metrics" 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 and 26 weeks ended October 31, 2015 compared to the 13 and 26 weeks ended November 1, 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.

Although the Safeway banner continues to face operational challenges in what remains a very competitive retail food environment, the remaining banners performed generally to expectations, driven by the ongoing roll out of our Better Food for All strategy which continues to resonate with more customers.

Sales

All sales are generated by the Food retailing segment.

The increase in sales for the 13 and 26 weeks ended October 31, 2015 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:

- Integration and operational challenges affecting Safeway operations;
- The continued negative impact of merchandising and promotional strategies for the Safeway banner;
- Store closures associated with the network rationalization;
- The decline in oil prices impacting fuel sales;
- The lost wholesale food volumes resulting from the loss of wholesale customers; and
- The economic downturn in areas that have been impacted by decreasing oil prices.

During the second quarter and first half of fiscal 2016, same-store sales[(1)] in the food retailing segment increased 0.1 and 0.3 percent from the same periods last year. Excluding the negative impact of fuel sales, due to downward pressure on oil prices, same-store sales would have increased by 0.9 and 1.0 percent.

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

EBITDA

Consolidated EBITDA decreased in the 13 and 26 weeks ended October 31, 2015 which was mainly due to the factors affecting sales, as mentioned previously, and the factors affecting gross profit in the Food retailing segment, combined with the provision related to the manufacturing purchase price adjustment. An offset to these additional costs were reduced expenses for variable components of compensation, including stock-based awards.

	13 Weeks Ended		$	26 Weeks Ended		$
($ in millions)	**Oct. 31, 2015**	Nov. 1, 2014[(1)]	Change	**Oct. 31, 2015**	Nov. 1, 2014[(1)]	Change
EBITDA (consolidated)	**$ 256.3**	$ 323.8	$ (67.5)	**$ 570.4**	$ 666.3	$ (95.9)
Adjustments:						
Loss on disposal of manufacturing facilities	**39.7**	7.2		**39.7**	7.2	
Organizational realignment costs	**7.1**	-		**13.5**	-	
Distribution centre restructuring	**0.6**	-		**5.3**	-	
	47.4	7.2	40.2	**58.5**	7.2	51.3
Adjusted EBITDA (consolidated)	**$ 303.7**	$ 331.0	$ (27.3)	**$ 628.9**	$ 673.5	$ (44.6)
Adjusted EBITDA margin[(2)]	**5.0%**	5.5%		**5.1%**	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 & Financial Metrics" section of this MD&A.

The $27.3 million and $44.6 million decrease in consolidated adjusted EBITDA for the 13 and 26 weeks ended October 31, 2015 were mainly the result of challenges in the West, partially offset by reduced expenses for variable components of compensation, including stock-based awards, noted above.

Operating Income

For the 13 and 26 weeks ended October 31, 2015, operating income decreased due to the factors affecting sales and EBITDA, as discussed previously, and the factors affecting gross profit in the Food retailing segment, discussed further.

Finance Costs

During the second quarter and first half of fiscal 2016, finance costs, net of finance income decreased, primarily due to the debt repayments in fiscal 2015. Interest coverage[1] in the second quarter decreased to 4.7 times from 5.7 times for the same period last year, as a result of decreased operating income, partially offset by decreased debt levels and associated interest expense.

During the 26 weeks ended October 31, 2015, interest coverage increased to 5.9 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 & Financial Metrics" section of this MD&A

Income Taxes

The Company's effective income tax rate for the second quarter was 29.6 percent compared to 25.2 percent in the same period last year. The increase in the effective income tax rate is primarily attributed to the partial non-deductibility of a potential manufacturing purchase price adjustment.

Net Earnings

For the 13 and 26 weeks ended October 31, 2015, net earnings were primarily impacted by the previously discussed challenges in the West, and the provision related to the manufacturing purchase price adjustment. An offset to these additional costs were reduced expenses for variable components of compensation, including stock-based awards.

($ in millions, except per share amounts, net of tax)	13 Weeks Ended		$	26 Weeks Ended		$
	Oct. 31, 2015	Nov. 1, 2014	Change	**Oct. 31, 2015**	Nov. 1, 2014	Change
Net earnings[1]	**$ 68.5**	$ 116.9	$ (48.4)	**$ 177.3**	$ 240.0	$ (62.7)
EPS[2] (fully diluted)	**$ 0.25**	$ 0.42	$ (0.17)	**$ 0.64**	$ 0.87	$ (0.23)
Adjustments[3]:						
Loss on disposal of manufacturing facilities	**31.8**	5.0		**31.8**	5.0	
Organizational realignment costs	**5.2**	-		**9.8**	-	
Intangible amortization associated with the Canada Safeway acquisition	**4.8**	4.7		**9.6**	10.7	
Distribution centre restructuring	**0.4**	-		**3.9**	-	
	42.2	9.7	32.5	**55.1**	15.7	39.4
Adjusted net earnings[1]	**$ 110.7**	$ 126.6	$ (15.9)	**$ 232.4**	$ 255.7	$ (23.3)
Adjusted EPS[2] (fully diluted)	**$ 0.40**	$ 0.46	$ (0.06)	**$ 0.84**	$ 0.92	$ (0.08)
Diluted weighted average number of shares outstanding (in millions)	**275.5**	277.0		**276.5**	277.1	

(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 and 26 weeks ended October 31, 2015 compared to the 13 and 26 weeks ended November 1, 2014.

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		$	%	26 Weeks Ended		$	%
($ in millions)	**Oct. 31, 2015**	Nov. 1, 2014	Change	Change	**Oct. 31, 2015**	Nov. 1, 2014	Change	Change
Sales	**$ 6,059.2**	$ 5,995.1	$ 64.1	1.1%	**$ 12,308.4**	$ 12,217.8	$ 90.6	0.7%
Gross Profit	**1,473.6**	1,480.9	(7.3)	(0.5)%	**2,989.6**	3,026.8	(37.2)	(1.2)%
EBITDA	**249.5**	301.5	(52.0)	(17.2)%	**552.6**	630.7	(78.1)	(12.4)%
Adjusted EBITDA	**296.9**	308.7	(11.8)	(3.8)%	**611.1**	637.9	(26.8)	(4.2)%
Operating income	**129.3**	181.6	(52.3)	(28.8)%	**313.9**	387.8	(73.9)	(19.1)%
Net earnings[(1)]	**64.0**	100.4	(36.4)	(36.3)%	**165.4**	213.9	(48.5)	(22.7)%
Adjusted net earnings[(1)]	**106.2**	110.1	(3.9)	(3.5)%	**220.5**	229.6	(9.1)	(4.0)%

(1) Net of non-controlling interest.

Sales

The increase in sales for the 13 and 26 weeks ended October 31, 2015 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:

- Integration and operational challenges affecting Safeway operations;
- The continued negative impact of merchandising and promotional strategies for the Safeway banner;
- Store closures associated with the network rationalization;
- The decline in oil prices impacting fuel sales;
- The lost wholesale food volumes resulting from the loss of wholesale customers; and
- The economic downturn in areas that have been impacted by decreasing oil prices.

During the second quarter and first half of fiscal 2016, same-store sales increased 0.1 and 0.3 percent from the same periods last year. Excluding the negative impact of fuel sales, due to downward pressure on oil prices, same-store sales would have increased by 0.9 and 1.0 percent.

Gross Profit

The decrease in gross margin during the 13 and 26 weeks ended October 31, 2015 continued to be the result of the learning curve and associated time needed for the organization to adapt to the significant changes from the integration of the Safeway operations and the continued impact that our merchandising and promotional programs had on our customers. These challenges are being addressed and mitigation plans continue to be put into place. The significant organizational, training, and education gaps related to IT system, process integration and reorganizational changes that were identified in the first quarter, continue to be aggressively addressed.

In addition, gross profit and gross margin continued to be impacted during the 13 and 26 weeks ended October 31, 2015 by the factors impacting sales, as well as:

- Synergies related to the Canada Safeway acquisition, 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 and 26 weeks ended October 31, 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 decreased in the 13 and 26 weeks ended October 31, 2015 which was mainly due to the factors affecting sales and gross profit, as mentioned previously, combined with the provision related to the manufacturing purchase price adjustment.. An offset to these additional costs were reduced expenses for variable components of compensation, including stock-based awards.

	13 Weeks Ended		$	26 Weeks Ended		$
($ in millions)	**Oct. 31, 2015**	Nov. 1, 2014	Change	**Oct. 31, 2015**	Nov. 1, 2014	Change
EBITDA (contributed by Sobeys)	**$ 249.5**	$ 301.5	$ (52.0)	**$ 552.6**	$ 630.7	$ (78.1)
Adjustments:						
Loss on disposal of manufacturing facilities	**39.7**	7.2		**39.7**	7.2	
Organizational realignment costs	**7.1**	-		**13.5**	-	
Distribution centre restructuring	**0.6**	-		**5.3**	-	
	47.4	7.2	40.2	**58.5**	7.2	51.3
Adjusted EBITDA	**$ 296.9**	$ 308.7	$ (11.8)	**$ 611.1**	$ 637.9	$ (26.8)
Adjusted EBITDA margin	**4.9%**	5.1%		**5.0%**	5.2%	

The $11.8 million and $26.8 million decrease in adjusted EBITDA for the 13 and 26 weeks ended October 31, 2015 were mainly the result of challenges in the West, partially offset by reduced expenses for variable components of compensation, including stock-based awards, noted above.

Operating Income

For the 13 and 26 weeks ended October 31, 2015, operating income decreased due to the factors affecting sales, gross profit, and EBITDA discussed previously.

Net Earnings

For the 13 and 26 weeks ended October 31, 2015, net earnings were primarily impacted by the previously discussed challenges in the West, and the provision related to the manufacturing purchase price adjustment. An offset to these additional costs were reduced expenses for variable components of compensation, including stock-based awards.

	13 Weeks Ended		$	26 Weeks Ended		$
($ in millions, except per share amounts, net of tax)	**Oct. 31, 2015**	Nov. 1, 2014	Change	Oct. 31, 2015	Nov. 1, 2014	Change
Net earnings (contributed by Sobeys)[1]	**$ 64.0**	$ 100.4	$ (36.4)	**$ 165.4**	$ 213.9	$ (48.5)
Adjustments[2]:						
Loss on disposal of manufacturing facilities	**31.8**	5.0		**31.8**	5.0	
Organizational realignment costs	**5.2**	-		**9.8**	-	
Intangible amortization associated with the Canada Safeway acquisition	**4.8**	4.7		**9.6**	10.7	
Distribution centre restructuring	**0.4**	-		**3.9**	-	
	42.2	9.7	32.5	**55.1**	15.7	39.4
Adjusted net earnings[1]	**$ 106.2**	$ 110.1	$ (3.9)	**$ 220.5**	$ 229.6	$ (9.1)

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

Investments and Other Operations

($ in millions)	13 Weeks Ended Oct. 31, 2015	13 Weeks Ended Nov. 1, 2014[1]	$ Change	26 Weeks Ended Oct. 31, 2015	26 Weeks Ended Nov. 1, 2014[1]	$ Change
Operating income (loss)						
Crombie REIT[2]	**$ 6.2**	$ 9.0	$ (2.8)	**$ 13.6**	$ 16.3	$ (2.7)
Real estate partnerships[3]	**2.2**	11.4	(9.2)	**7.1**	19.4	(12.3)
Other operations, net of corporate expenses	**(1.7)**	1.7	(3.4)	**(3.1)**	(0.4)	(2.7)
	$ 6.7	$ 22.1	$ (15.4)	**$ 17.6**	$ 35.3	$ (17.7)

(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 (November 1, 2014 – 41.5 percent interest).
(3) Interests in Genstar.

At October 31, 2015, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

($ in millions)	**October 31, 2015** Fair Value	**October 31, 2015** Carrying Value	**October 31, 2015** Unrealized Gain	May 2, 2015 Fair Value	May 2, 2015 Carrying Value	May 2, 2015 Unrealized Gain	November 1, 2014 Fair Value	November 1, 2014 Carrying Value	November 1, 2014 Unrealized Gain
Investment in associates									
Crombie REIT[1]	**$ 707.5**	**$ 357.7**	**$ 349.8**	$ 724.3	$ 365.6	$ 358.7	$ 708.0	$ 369.4	$ 338.6
Canadian real estate partnerships[2]	**136.4**	**136.4**	**-**	143.4	143.4	-	140.7	140.7	-
U.S. real estate partnerships[2]	**55.4**	**55.4**	-	59.3	59.3	-	62.2	62.2	-
Investment in joint ventures									-
Canadian Digital Cinema Partnership[2]	**9.4**	**9.4**	**-**	9.5	9.5	-	9.7	9.7	-
	$ 908.7	**$ 558.9**	**$ 349.8**	$ 936.5	$ 577.8	$ 358.7	$ 920.6	582.0	338.6

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of October 30, 2015.
(2) Assumes fair value equals carrying value.

Operating Income

For the 13 and 26 weeks ended October 31, 2015, the decrease in operating income from investments and other operations was primarily a result of the Company's real estate partnerships (Genstar) which sold fewer lots when compared to the comparable periods.

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:

	Fiscal 2016		Fiscal 2015[1]				Fiscal 2014[1]	
($ in millions, except per share amounts)	**Q2 Oct. 31, 2015**	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
Sales	**$ 6,059.2**	$ 6,249.2	$ 5,770.5	$ 5,940.5	$ 5,995.1	$ 6,222.7	$ 5,944.3	$ 6,003.9
EBITDA[2]	**256.3**	314.1	236.3	322.3	323.8	342.5	147.2	188.6
Operating income	**136.0**	195.5	115.9	203.4	203.7	219.4	22.7	65.0
Net earnings from continuing operations[3]	**68.5**	108.8	55.4	123.6	116.9	123.1	1.5	6.4
Net earnings (loss) from discontinued operations[4]	**-**	-	-	-	-	-	(0.7)	(6.0)
Net earnings[3]	**$ 68.5**	$ 108.8	$ 55.4	$ 123.6	$ 116.9	$ 123.1	$ 0.8	$ 0.4
Per share information, basic								
Net earnings from continuing operations[3]	**$ 0.25**	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.01	$ 0.02
Net earnings (loss) from discontinued operations[4]	**-**	-	-	-	-	-	(0.00)	(0.02)
Net earnings[3]	**$ 0.25**	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.00	$ 0.00
Basic weighted average number of shares outstanding (in millions)	**275.2**	277.0	277.0	277.0	277.0	277.0	276.9	276.0
Per share information, diluted								
Net earnings from continuing operations[3]	**$ 0.25**	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.01	$ 0.02
Net earnings (loss) from discontinued operations[4]	**-**	-	-	-	-	-	(0.00)	(0.02)
Net earnings[3]	**$ 0.25**	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.00	$ 0.00
Diluted weighted average number of shares outstanding (in millions)	**275.5**	277.5	277.5	277.2	277.0	277.0	277.1	276.0

(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 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) 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 first and second quarters of fiscal 2016 show increased sales, but a decrease in operating income and net earnings when compared to the same quarters in fiscal 2015. This was the result of the challenges for the organization to adapt to the significant change from the integration of Safeway operations, the continued negative impact of merchandising and promotional strategies for this banner, and the provision recorded for manufacturing sales agreements as previously mentioned. These challenges have been identified and continue to be addressed.

- 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, the impact on fuel sales by declining oil prices and Competition Bureau imposed divestitures associated with the Canada Safeway acquisition.

Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. The Company does experience some seasonality, as evidenced in the results presented above, in particular during the summer months and over the holidays. 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 the major cash flow components for the Company for the relevant periods.

($ in millions)	13 Weeks Ended Oct. 31, 2015	13 Weeks Ended Nov. 1, 2014[1]	$ Change	26 Weeks Ended Oct. 31, 2015	26 Weeks Ended Nov. 1, 2014[1]	$ Change
Net earnings	**$ 71.6**	$ 122.0	$ (50.4)	**$ 190.7**	$ 253.4	$ (62.7)
Non-cash and other cash items	**232.2**	189.9	42.3	**450.1**	422.2	27.9
Net change in non-cash working capital	**(140.1)**	(101.2)	(38.9)	**(134.1)**	(68.4)	(65.7)
Income taxes paid, net	**(27.9)**	(29.6)	1.7	**(55.1)**	(48.1)	(7.0)
Cash flows from operating activities	**135.8**	181.1	(45.3)	**451.6**	559.1	(107.5)
Cash flows used in investing activities	**(190.7)**	(60.7)	(130.0)	**(353.0)**	(94.5)	(258.5)
Cash flows used in financing activities	**(25.1)**	(134.1)	109.0	**(90.5)**	(517.4)	426.9
Increase (decrease) in cash and cash equivalents	**$ (80.0)**	$ (13.7)	$ (66.3)	**$ 8.1**	$ (52.8)	$ (60.9)

(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 in the second quarter and first half of fiscal 2016 was primarily the result of a decline in net earnings as previously discussed, combined with a decrease in the net change in non-cash working capital, caused by a decrease in accounts payable due to the timing of the rent payments in the first quarter. These were partially offset by the change in non-cash and other items.

Free Cash Flow

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.

($ in millions)	13 Weeks Ended Oct. 31, 2015	13 Weeks Ended Nov. 1, 2014[1]	$ Change	26 Weeks Ended Oct. 31, 2015	26 Weeks Ended Nov. 1, 2014[1]	$ Change
Cash flows from operating activities	**$ 135.8**	$ 181.1	$ (45.3)	**$ 451.6**	$ 559.1	$ (107.5)
Add: proceeds on disposal of property, equipment and investment property	**4.5**	45.2	(40.7)	**48.4**	165.0	(116.6)
Less: property, equipment and investment property purchases	**(156.2)**	(86.3)	(69.9)	**(299.1)**	(192.1)	(107.0)
Free Cash Flow[1]	**$ (15.9)**	$ 140.0	$ (155.9)	**$ 200.9**	$ 532.0	$ (331.1)

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

The decrease in free cash flow for the 13 and 26 weeks ended October 31, 2015 was the result of:

- A reduction in cash flows from operating activities as previously discussed;
- A decrease in proceeds on disposal of property, equipment and investment property. The change in the 13 weeks is primarily due to real estate transactions in the second quarter of fiscal 2015. The change in the 26 weeks was primarily due to the divestiture of 11 stores in the first quarter of fiscal 2015, required as a part of the Canada Safeway acquisition; and
- An increase in property, equipment and investment property purchases related to the automated distribution centre expansion in Vaughan, the acquisition of a former Target warehouse facility in Rocky View, Alberta as well as the property and equipment purchases associated with Co-op.

Investment

The increase in cash used in investing activities in the second quarter and first half of fiscal 2016 was mainly due to an increase in property, equipment and investment property purchases previously noted.

The increase in cash used in investing activities in the first half of fiscal 2016 was also due to:

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

The table below outlines the number of stores Sobeys invested in during the 13 and 26 weeks ended October 31, 2015 compared to the 13 and 26 weeks ended November 1, 2014.

	13 Weeks Ended		26 Weeks Ended	
# of stores	**Oct. 31, 2015**	Nov. 1, 2014	**Oct. 31, 2015**	Nov. 1, 2014
Opened/relocated/acquired	**48**	14	**65**	38
Expanded	**7**	2	**12**	2
Rebannered/redeveloped	**5**	10	**16**	12
Closed – normal course of operations	**10**	6	**17**	15
Divested – Competition Bureau imposed	**-**	-	**-**	11
Closed – network rationalization	**-**	7	**-**	30

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended October 31, 2015, by type:

Square feet (in thousands)	**13 Weeks Ended October 31, 2015**	52 Weeks Ended October 31, 2015
Opened	**550**	927
Relocated	**12**	181
Acquired	**31**	85
Expanded	**50**	131
Closed – normal course of operations	**(96)**	(198)
Net change before the impact of the network rationalization	**547**	1,126
Closed – network rationalization	**-**	(402)
Net change with the impact of the network rationalization	**547**	724

At October 31, 2015, Sobeys' square footage totalled 38.3 million, a 1.9 percent increase over the 37.6 million square feet operated at the end of the second quarter last year.

Financing

The decrease in cash used in financing activities during the 13 weeks ended October 31, 2015 was primarily due to an increase in the issuance of long-term debt as the Company drew down $130.0 million on its credit facilities and Sobeys drew down $90.0 million on its credit facility. The Company used the net proceeds to repurchase shares under the normal course issuer bid ("NCIB") and Sobeys used the net proceeds to pay operating and capital expenses. For more information on the NCIB please see the "Shareholders' Equity" section of this MD&A.

The decrease in cash used in financing activities during the 26 weeks ended October 31, 2015 was primarily due to reduction in the repayment of long-term debt $106.1 million (2015 – $758.0 million). 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.

The decrease in cash used in financing activities during the 13 and 26 weeks ended October 31, 2015 was partially offset by an increase in the repurchase of Non-Voting Class A shares of $148.1 million (2015 - $ nil) as the Company repurchased 5,365,752 Non-Voting Class A common shares under the NCIB in the second quarter of fiscal 2016.

Employee Future Benefit Obligations

For the 13 and 26 weeks ended October 31, 2015, the Company contributed $2.4 million and $4.5 million respectively (2015 – $1.6 million and $4.3 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.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure

The Company's share capital was comprised of the following on October 31, 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	768,105,849	173,536,260		2,037.7
Class B common shares, without par value, voting	122,400,000	98,138,079		7.3
			$	2,045.0

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		October 31, 2015		May 2, 2015[1]		November 1, 2014[1][2]
Shareholders' equity, net of non-controlling interest	**$**	**6,000.9**	$	5,983.8	$	5,872.1
Book value per common share[3]	**$**	**21.81**	$	21.60	$	21.20
Long-term debt, including current portion	**$**	**2,463.3**	$	2,290.9	$	3,118.6
Funded debt to total capital[3]		**29.1%**		27.7%		34.7%
Net funded debt to net total capital[3]		**26.5%**		25.0%		31.8%
Funded debt to EBITDA[3][4][5]		**2.2x**		1.9x		3.1x
EBITDA to interest expense[3][4][6]		**9.5x**		8.9x		6.1x
Current assets to current liabilities		**0.9x**		0.9x		1.2x
Total assets	**$**	**11,613.5**	$	11,468.4	$	12,135.8

(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 & Financial Metrics" section of this MD&A.
(4) Ratios for November 1, 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 increased 1.4 percentage points to 29.1 percent at October 31, 2015 from 27.7 percent at May 2, 2015.

The funded debt to EBITDA ratio increased to 2.2 times compared to 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 ($119.2 million versus $137.3 million at May 2, 2015) and a lower trailing 12-month EBITDA ($1,129.0 million versus $1,224.9 million at May 2, 2015).

The Company's ratio of current assets to current liabilities remained unchanged from 0.9 times at May 2, 2015.

The Company's current credit ratings are BBB (low) with a stable trend from Dominion Bond Rating Service ("DBRS") and BBB- with a stable 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 and 26 weeks ended October 31, 2015.

Shareholders' Equity

The increase in shareholders' equity, net of non-controlling interest, of $128.8 million from fiscal 2015 primarily reflects the increase in retained earnings partially offset by Non-Voting Class A share repurchases under the NCIB of $148.1 million and dividends paid of $104.8 million. Book value per common share was $21.81 at October 31, 2015 compared to $21.20 at November 1, 2014.

The Company's share capital on October 31, 2015 compared to the same period in the last fiscal year is shown in the table below.

	13 Weeks Ended	
(Number of Shares)	**October 31, 2015**	November 1, 2014
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**178,901,505**	174,206,127
Issued during period	**507**	8,037
Repurchase of capital stock	**(5,365,752)**	-
Issued and outstanding, end of period	**173,536,260**	174,214,164
Class B common shares		
Issued and outstanding, beginning of period	**98,138,079**	102,782,289
Issued during period	**-**	-
Total Issued and outstanding, end of period	**98,138,079**	102,782,289

During the 13 and 26 weeks ended October 31, 2015, the Company paid common dividends of $27.3 million and $25.0 million (2015 – $25.0 million and $49.9 million) to its equity holders. This represents a payment of $0.10 and $0.20 per share (2015 – $0.09 and $0.18 per share) for common share holders.

As at December 8, 2015, the Company had Non-Voting Class A and Class B common shares outstanding of 173,536,260, and 98,138,079, respectively, as well as 3,932,256 options to acquire in aggregate 3,932,256 Non-Voting Class A shares.

Normal Course Issuer Bid

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 to purchase for cancellation up to 1,788,584 Non-Voting Class A shares, or 5,365,752 Non-Voting Class A shares post-share split, representing approximately three percent of those outstanding. Purchases may commence on March 17, 2015, and shall terminate not later than March 16, 2016. During the quarter ended October 31, 2015, the Company purchased for cancellation 5,365,752 Non-Voting Class A shares which fulfilled the NCIB. The purchase price was $148.1 million of which $64.8 million of the purchase price was accounted for as a reduction to share capital and the remainder as a reduction to retained earnings.

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 and 26 weeks ended October 31, 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 October 31, 2015. To mitigate the currency risk associated with some of Sobeys' USD, Euro and British Pound 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 October 31, 2015 is $50.0 million and the interest rate swap matures on December 31, 2015.

During the 13 and 26 weeks ended October 31, 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 October 31, 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

The 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.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2015 annual MD&A. These estimates have remained unchanged with the following exception:

Supply Agreements

The Company has various long-term supply agreements for products, some of which contain minimum volume purchases. Significant estimation and judgment is required in the determination of (i) future operating results; and (ii) forecasted volumes purchased. When measuring whether a provision is required based on the expected future cash flows associated with fulfilling the contract, management makes assumptions which relate to future events and circumstances. Actual results could vary from these estimated future cash flows.

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.

There have been no changes in the Company's ICFR during the period beginning August 2, 2015 and ended October 31, 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 half of fiscal 2016. However, as noted below, subsequent to the close of the second quarter of fiscal 2016, five properties were sold to Crombie REIT and leased back.

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.

SUBSEQUENT EVENT

Subsequent to the close of the second quarter ended October 31, 2015, Sobeys, through its wholly-owned subsidiaries, sold and leased back five properties from Crombie REIT, an entity in which the Company has a 41.5 percent ownership. Cash consideration received for the properties sold was $57.3 million, resulting in a pre-tax gain of $9.7 million.

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 taxes, and depreciation and amortization of intangibles. The exclusion of depreciation and amortization partially eliminates the non-cash impact from operating income.

The following table reconciles GAAP measures to EBITDA:

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Oct. 31, 2015**	Nov. 1, 2014[(1)]	**Oct. 31, 2015**	Nov. 1, 2014[(1)]
Net earnings	**$ 71.6**	$ 122.0	**$ 190.7**	$ 253.4
Income taxes	**30.1**	41.2	**73.6**	85.6
Finance costs, net	**34.3**	40.5	**67.2**	84.1
Operating income	**136.0**	203.7	**331.5**	423.1
Depreciation	**97.7**	99.3	**194.4**	200.2
Amortization of intangibles	**22.6**	20.8	**44.5**	43.0
EBITDA	**$ 256.3**	$ 323.8	**$ 570.4**	$ 666.3

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

- 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		26 Weeks Ended	
($ in millions)	**Oct. 31, 2015**	Nov. 1, 2014[1]	**Oct. 31, 2015**	Nov. 1, 2014[1]
Finance costs, net	**$ 34.3**	$ 40.5	**$ 67.2**	$ 84.1
Plus: finance income	**0.4**	0.7	**1.2**	1.4
Plus: fair value (losses) gains on forward contracts	**(0.1)**	0.2	**0.2**	0.2
Less: net pension finance costs	**(3.0)**	(3.1)	**(6.0)**	(6.2)
Less: accretion expense on provisions	**(2.9)**	(2.5)	**(6.1)**	(4.9)
Interest expense	**$ 28.7**	$ 35.8	**$ 56.5**	$ 74.6
Interest expense on financial liabilities measured at amortized cost	**$ 28.6**	$ 35.6	**$ 56.3**	$ 74.3
Losses on cash flow hedges reclassified from other comprehensive income	**0.1**	0.2	**0.2**	0.3
Interest expense	**$ 28.7**	$ 35.8	**$ 56.5**	$ 74.6

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

- 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 October 31, 2015, May 2, 2015 and November 1, 2014, respectively:

($ in millions)		October 31, 2015		May 2, 2015[1]		November 1, 2014[1]
Long-term debt due within one year	**$**	**346.2**	$	53.9	$	19.8
Long-term debt		**2,117.1**		2,237.0		3,098.8
Funded debt		**2,463.3**		2,290.9		3,118.6
Less: cash and cash equivalents		**(304.0)**		(295.9)		(376.5)
Net funded debt		**2,159.3**		1,995.0		2,742.1
Total shareholders' equity, net of non-controlling interest		**6,000.9**		5,983.8		5,872.1
Net total capital	**$**	**8,160.2**	$	7,978.8	$	8,614.2

($ in millions)		October 31, 2015		May 2, 2015		November 1, 2014
Funded debt	**$**	**2,463.3**	$	2,290.9	$	3,118.6
Total shareholders' equity, net of non-controlling interest		**6,000.9**		5,983.8		5,872.1
Total capital	**$**	**8,464.2**	$	8,274.7	$	8,990.7

(1) Amounts have been reclassified to correspond to the current period presentation on 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.

- 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.

- Adjusted EBITDA margin is adjusted EBITDA divided by 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 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 October 31, 2015, May 2, 2015 and November 1, 2014.

($ in millions, except per share information)	**October 31, 2015**	May 2, 2015	November 1, 2014
Shareholders' equity, net of minority interest	**$ 6,000.9**	$ 5,983.8	$ 5,872.1
Shares outstanding (basic)	**275.2**	277.0	277.0
Book value per common share	**$ 21.81**	$ 21.60	$ 21.20

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: December 8, 2015
Stellarton, Nova Scotia, Canada