EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 AND 39 WEEKS ENDED JANUARY 30, 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") and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 13 and 39 weeks ended January 30, 2016 compared to the 13 and 39 weeks ended January 31, 2015. It should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the 13 and 39 weeks ended January 30, 2016, compared to the 13 and 39 weeks ended January 31, 2015, 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 March 9, 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 52 weeks ended May 2, 2015 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 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 three quarters of fiscal 2016 and future mitigating strategies employed;

- The Company's key assumptions used in the calculation of the impairment of long-lived assets, includes, long-term growth rates ranging from 3.0 percent to 5.0 percent and pre-tax discount rates that range from 7.0 percent to 10.0 percent. These assumptions were applied to the Company's internal forecasts to create cash flow projections. There is a risk that internal forecasts will not be achieved and actual long-term growth rates will fall outside of the ranges used;

- The Company’s key assumptions used in the calculation of the impairment of goodwill include the after-tax discount rate, the growth rates and the operating margins used to estimate future performance. These are equally based on past performance and experience with growth rates and achievable operating margins. The after-tax discount rate used was 10.0 percent. An assumed annual growth rate of 3.0 percent and an assumed terminal growth rate of 3.0 percent were used. The risk is that the growth rates and operating margins used in the calculation will fall outside of the determined amounts;

- 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 impact of organizational realignment including expected efficiencies, cost savings, and the impact on long-term earnings which could be impacted by the timing of positions eliminated, the time required by the Company to implement the realignment 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;

- The Company’s expectations regarding the retail store network rationalization including the impact on future sales and net (loss) 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.

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 the Company's Annual Information Form and Annual MD&A. The list of factors is not exhaustive and other factors could also adversely affect results.

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 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 $24.1 billion in annualized sales and $10.1 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 January 30, 2016, 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 third 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 39 weeks ended January 30, 2016, the Company opened, relocated, acquired, expanded, rebannered, and/or redeveloped the banners in 25 and 118 stores (2015 – 16 and 68 stores).

Significant Items

Impairment of Goodwill and Long-Lived Assets[(1)]

The Company reviews the carrying value of its long-lived assets at each reporting period for indications of impairment. The Company reviews goodwill for impairment on an annual basis, or more frequently, if indicators of impairment exist. As a result of operational challenges faced in Western Canada, primarily under the Safeway banner, and the third quarter's long-lived asset impairment test, the Company reviewed goodwill for impairment as at January 30, 2016.

Goodwill and long-lived assets are reviewed for impairment by assessing the recoverable amount of each cash generating unit ("CGU") or groups of CGUs to which the goodwill or long-lived assets relate. When the recoverable amount for the CGU or groups of CGUs is less than the carrying amount, an impairment loss is recognized. For a detailed discussion of the impairment methodology and calculation please see Note 7 of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended January 30, 2016.

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

Management considered the indicators of impairment to be the significant operational challenges in Western Canada, discussed further in the Safeway Integration section below, the outcome of the long-lived asset impairment test, and the overall challenging economic climate mainly in the Alberta and Saskatchewan markets. In the third quarter of fiscal 2016, the Company recorded an impairment of long-lived assets of $137.7 million and an impairment of goodwill of $1,592.6 million representing the write-down of certain store assets in the Sobeys West operating segment and related goodwill, to their recoverable amount. The allocation of the impairment between goodwill and long-lived assets may be adjusted during the fourth quarter if deemed necessary.

Safeway Integration[(1)]

Following the close of the Canada Safeway acquisition, the Company began integration of the acquired business with existing operations which has resulted in a number of operational issues that have had an impact on financial results. This integration continues to present significant challenges as the organizational, training and educational gaps related to the information technology system and process integration of the acquired business continue to be identified by the Company. These business integration challenges were coupled with operational challenges, experienced during the second and third quarters of fiscal 2016. Merchandising issues such as our private label conversion along with produce supply chain issues impacted the offerings being made to customers at store level. In addition, increased promotional activity and a difficult economic environment mainly in the Alberta and Saskatchewan markets, resulted in sales, gross margin and earnings erosion in the Safeway banner and the Western business unit. These have negatively impacted our customer experience and resulted in same-store sales for the West business unit excluding fuel of (2.9) percent and (0.9) percent for the 13 and 39 weeks ended January 30, 2016.

These challenges are being aggressively addressed and mitigation plans continue to be developed and implemented across the Safeway operations and are the top priority for management. At the end of the quarter, the Company introduced a major initiative in Western Canada designed to address sales erosion related to promotional activity and to build back customer loyalty. The *Better Produce at Lower Prices* initiative launched in the Safeway and Sobeys banners resulted in store pricing lowered on many produce items and aims to bring better quality, reduced prices and variety of choices to customers.

During the fourth quarter of fiscal 2015, as part of the Company's three-year integration plan, 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. It is also expected to maximize the efficiency of the network and improve net earnings over the long term as a result of cost savings. These anticipated long-term benefits were not without short-term challenges. Although the various risks associated with integration were identified, including the amount and pace of change required, the organization underestimated the time required to adapt. Uncertainty in the workforce had a significant impact on operational efficiencies and productivity for Safeway banner operations. The Company has finalized its staff selection process and is already well underway with transitioning planning for those employees. For the 13 and 39 weeks ended January 30, 2016, the Company recognized $0.1 million and $13.6 million in severance costs associated with the organizational realignment.

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

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 two quarters of fiscal 2016, management believed that purchases in calendar year 2016 were unlikely to meet the minimum volume requirements and, accordingly, recorded a provision of $39.7 million to reflect the estimated adjustment to the sales price. During the third quarter of fiscal 2016, management reviewed its initial estimate and concluded that volume purchases continue to be in line with these expectations, therefore no further adjustment has been made. This provision continues 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.

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.

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

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 have impacted the financial results of the Company for the 13 and 39 weeks ended January 30, 2016 and their comparative periods:

- Cost saving synergies of $56.2 million and $162.7 million (2015 – $39.2 million and $98.9 million) associated with the Canada Safeway acquisition during the 13 and 39 weeks ended January 30, 2016;

- Increased sales as a result of the Co-op Atlantic acquisition and the associated long-term supply and franchise agreements during the three quarters ended January 30, 2016;

- During the third quarter, Sobeys, through its wholly-owned subsidiaries, sold and leased back six properties from Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which Empire has a 41.5 percent ownership. Cash consideration received for the properties sold was $60.7 million, resulting in a pre-tax gain of $6.5 million, which has been recognized in the condensed consolidated statements of (loss) earnings;

- Efficiencies related to the distribution centre restructuring continue to be identified and costs were incurred of $0.4 million and $5.7 million for the 13 and 39 weeks ended January 30, 2016 (2015 – $ nil and $ nil); and

- The retail store network rationalization which resulted in two store closures during the 13 and 39 weeks ended January 30, 2016 and 42 store closures in fiscal 2015, representing a combined total of 1.4 million square feet. In the third quarter of fiscal 2015 there was a network rationalization reversal of $7.6 million, due to management's decision to continue operating two sites that were initially included in the network rationalization. The net closures had a negative impact on total sales for the 13 and 39 weeks ended January 30, 2016 when compared to the same periods in the prior year.

Investments and Other Operations

Empire's investments and other operations segment, as of January 30, 2016 specifically included:

1. A 41.5 percent (40.2 percent fully diluted) equity accounted interest in Crombie REIT, an open-ended Canadian real estate investment trust. Crombie REIT currently owns a portfolio of 261 retail and office properties across Canada, comprising approximately 17.7 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				39 Weeks Ended			
	Jan. 30, 2016	Jan. 31, 2015[1]	$ Change	% Change	**Jan. 30, 2016**	Jan. 31, 2015[1]	$ Change	% Change
Sales	**$ 6,027.2**	$ 5,940.5	$ 86.7	1.5%	**$ 18,335.6**	$ 18,158.3	$ 177.3	1.0%
Gross Profit[2]	**1,421.8**	1,479.7	(57.9)	(3.9)%	**4,411.4**	4,506.2	(94.8)	(2.1)%
EBITDA[2]	**(1,467.9)**	322.3	(1,790.2)	(555.4)%	**(897.5)**	988.6	(1,886.1)	(190.8)%
Adjusted EBITDA[2]	**262.9**	309.1	(46.2)	(14.9)%	**891.8**	982.6	(90.8)	(9.2)%
Operating (loss) income	**(1,589.8)**	203.4	(1,793.2)	(881.6)%	**(1,258.3)**	626.5	(1,884.8)	(300.8)%
Finance costs, net	**33.9**	36.7	(2.8)	(7.6)%	**101.1**	120.8	(19.7)	(16.3)%
Income taxes (recovery) expense	**(258.2)**	41.9	(300.1)	(716.2)%	**(184.6)**	127.5	(312.1)	(244.8)%
Non-controlling interest	**0.2**	1.2	(1.0)	(83.3)%	**13.6**	14.6	(1.0)	(6.8)%
Net (loss) earnings[3]	**(1,365.7)**	123.6	(1,489.3)	(1,204.9)%	**(1,188.4)**	363.6	(1,522.0)	(426.8)%
Adjusted net earnings[2][3]	**82.5**	118.6	(36.1)	(30.4)%	**314.9**	374.3	(59.4)	(15.9)%
Basic earnings per share								
Net (loss) earnings[3][4]	**$ (5.03)**	$ 0.45	$ (5.48)		**$ (4.33)**	$ 1.31	$ (5.64)	
Adjusted net earnings[2][3]	**$ 0.30**	$ 0.43	$ (0.13)		**$ 1.15**	$ 1.35	$ (0.20)	
Basic weighted average number of shares outstanding (in millions)	**271.7**	277.0			**274.6**	277.0		
Diluted earnings per share								
Net (loss) earnings[3][4]	**$ (5.03)**	$ 0.45	$ (5.48)		**$ (4.33)**	$ 1.31	$ (5.64)	
Adjusted net earnings[2][3]	**$ 0.30**	$ 0.43	$ (0.13)		**$ 1.15**	$ 1.35	$ (0.20)	
Diluted weighted average number of shares outstanding (in millions)	**271.8**	277.2			**274.9**	277.0		
Dividend per share	**$ 0.10**	$ 0.09			**$ 0.30**	$ 0.27		

(% of sales)	13 Weeks Ended		39 weeks Ended	
	Jan. 30, 2016	Jan. 31, 2015	**Jan. 30, 2016**	Jan. 31, 2015
Gross Profit	**23.6%**	24.9%	**24.1%**	24.8%
EBITDA	**(24.4)%**	5.4%	**(4.9)%**	5.4%
Adjusted EBITDA	**4.4%**	5.2%	**4.9%**	5.4%
Operating (loss) income	**(26.4)%**	3.4%	**(6.9)%**	3.5%
Net (loss) earnings[3]	**(22.7)%**	2.1%	**(6.5)%**	2.0%
Adjusted net earnings[3]	**1.4%**	2.0%	**1.7%**	2.1%

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

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of the Company's consolidated financial performance for the 13 and 39 weeks ended January 30, 2016 compared to the 13 and 39 weeks ended January 31, 2015.

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 the *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 39 weeks ended January 30, 2016 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:

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

During the 13 and 39 weeks ended January 30, 2016, same-store sales(1) in the food retailing segment increased 0.4 and 0.3 percent from the same periods last year. Excluding the negative impact of fuel sales and the retail West business unit, same-store sales would have increased 2.7 and 1.9 percent. The majority of the West impact was the result of challenges for the Safeway banner.

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

EBITDA

Consolidated EBITDA decreased in the 13 and 39 weeks ended January 30, 2016 largely due to impairments recorded for goodwill and long-lived assets, and the factors affecting sales, as mentioned previously, and the factors affecting gross profit in the Food retailing segment, discussed below. Reduced expenses in the current quarter for variable components of compensation, including stock-based awards, partially offset the operational decline noted above.

The decrease in EBITDA in the 39 weeks ended January 30, 2016 was also due to the provision related to the manufacturing purchase price adjustment.

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2016**	Jan. 31, 2015(1)	Change	**Jan. 30, 2016**	Jan. 31, 2015(1)	Change
EBITDA (consolidated)	**$ (1,467.9)**	$ 322.3	$ (1,790.2)	**$ (897.5)**	$ 988.6	$ (1,886.1)
Adjustments:						
Impairments of goodwill and long-lived assets	**1,730.3**	-		**1,730.3**	-	
Distribution centre restructuring	**0.4**	-		**5.7**	-	
Organizational realignment costs	**0.1**	-		**13.6**	-	
Network rationalization reversals	**-**	(7.6)		**-**	(7.6)	
(Gain) loss on disposal of manufacturing facilities	**-**	(5.6)		**39.7**	1.6	
	1,730.8	(13.2)	1,744.0	**1,789.3**	(6.0)	1,795.3
Adjusted EBITDA (consolidated)	**$ 262.9**	$ 309.1	$ (46.2)	**$ 891.8**	$ 982.6	$ (90.8)

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

Operating Loss

For the 13 and 39 weeks ended January 30, 2016, operating loss increased due to the factors affecting sales and EBITDA, as discussed previously, and the factors affecting gross profit in the Food retailing segment, discussed further. This was partially offset by the Investments and other operations segment which had a $19.8 million gain on the sale of two real estate development partnerships by Genstar Development Partnership II during the third quarter of fiscal 2016.

Finance Costs

For the third quarter of fiscal 2016, finance costs, net of finance income remained consistent with the same period last year. Interest coverage[1] in the third quarter decreased to (57.0) times from 6.3 times for the third quarter of fiscal 2015, as a result of decreased operating income. Excluding the impact of goodwill and long-lived asset impairments, interest coverage would have been 5.0 times.

During the 39 weeks ended January 30, 2016, finance costs, net of finance income decreased, primarily due to debt repayments in fiscal 2015. Interest coverage decreased to (14.9) times from 5.9 times during the same period in the prior year. Excluding the impact of goodwill and long-lived asset impairments, interest coverage would have been 5.6 times.

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

Income Taxes

The Company's effective income tax rate for the third quarter was 15.9 percent compared to 25.1 percent in the same period last year. The reduction is attributable to the impact of the impairments of goodwill and long-lived assets. The effective income tax rate, excluding the impact of the aforementioned impairments, would have been 27.3 percent in the third quarter compared to 25.1 percent in the same period last year. The increase is due to the higher proportion of income earned by the Investments and other operations segment compared to the same period last year.

The effective income tax rate for the 39 weeks ended January 30, 2016 decreased to 13.6 percent in comparison to 25.2 percent in the same period last year. The reduction is attributable to the impact of the impairments of goodwill and long-lived assets. The effective income tax rate, excluding the impact of the impairments, would have been 27.7 percent compared to 25.2 percent in the same period last year. The increase is primarily attributed to the partial non-deductibility of a potential manufacturing purchase price adjustment.

Net Loss

For the 13 and 39 weeks ended January 30, 2016, net loss was primarily impacted by the previously discussed challenges in the West and the resulting impairments taken, and the provision related to the manufacturing purchase price adjustment. The decrease was partially offset by reduced expenses for variable components of compensation, including stock-based awards, in the current year compared to the prior year.

($ in millions, except per share amounts, net of tax)	13 Weeks Ended Jan. 30, 2016	13 Weeks Ended Jan. 31, 2015	$ Change	39 Weeks Ended Jan. 30, 2016	39 Weeks Ended Jan. 31, 2015	$ Change
Net (loss) earnings[1]	**$ (1,365.7)**	$ 123.6	$ (1,489.3)	**$ (1,188.4)**	$ 363.6	$ (1,552.0)
EPS[2][3] (fully diluted)	**$ (5.03)**	$ 0.45	$ (5.48)	**$ (4.33)**	$ 1.31	$ (5.64)
Adjustments[4]:						
Impairments of goodwill and long-lived assets	**1,443.1**	-		**1,443.1**	-	
Intangible amortization associated with the Canada Safeway acquisition	**4.7**	4.9		**14.3**	15.6	
Distribution centre restructuring	**0.3**	-		**4.2**	-	
Organizational realignment costs	**0.1**	-		**9.9**	-	
Network rationalization reversals	**-**	(5.5)		**-**	(5.5)	
(Gain) loss on disposal of manufacturing facilities	**-**	(4.4)		**31.8**	0.6	
	1,448.2	(5.0)	1,453.2	**1,503.3**	10.7	1,492.6
Adjusted net earnings[1]	**$ 82.5**	$ 118.6	$ (36.1)	**$ 314.9**	$ 374.3	$ (59.4)
Adjusted EPS[2] (fully diluted)	**$ 0.30**	$ 0.43	$ (0.13)	**$ 1.15**	$ 1.35	$ (0.20)
Diluted weighted average number of shares outstanding (in millions)	**271.8**	277.2		**274.9**	277.0	

(1) Net of non-controlling interest.
(2) Earnings per share ("EPS").
(3) 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.
(4) 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 39 weeks ended January 30, 2016 compared to the 13 and 39 weeks ended January 31, 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.

($ in millions)	13 Weeks Ended Jan. 30, 2016	13 Weeks Ended Jan. 31, 2015	$ Change	% Change	39 Weeks Ended Jan. 30, 2016	39 Weeks Ended Jan. 31, 2015	$ Change	% Change
Sales	**$ 6,027.2**	$ 5,940.5	$ 86.7	1.5%	**$ 18,335.6**	$ 18,158.3	$ 177.3	1.0%
Gross Profit	**1,421.8**	1,479.8	(58.0)	(3.9)%	**4,411.4**	4,506.6	(95.2)	(2.1)%
EBITDA	**(1,516.6)**	284.3	(1,800.9)	(633.5)%	**(964.0)**	915.0	(1,879.0)	(205.4)%
Adjusted EBITDA	**214.2**	271.1	(56.9)	(21.0)%	**825.3**	909.0	(83.7)	(9.2)%
Operating (loss) income	**(1,638.2)**	165.8	(1,804.0)	(1,088.1)%	**(1,324.3)**	553.6	(1,877.9)	(339.2)%
Net (loss) earnings[1]	**(1,400.5)**	95.5	(1,496.0)	(1,566.5)%	**(1,235.1)**	309.4	(1,544.5)	(499.2)%
Adjusted net earnings[1]	**47.7**	90.5	(42.8)	(47.3)%	**268.2**	320.1	(51.9)	(16.2)%

(1) Net of non-controlling interest.

Sales

The increase in sales for the 13 and 39 weeks ended January 30, 2016 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:

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

During the 13 and 39 weeks ended January 30, 2016, same-store sales in the food retailing segment increased 0.4 and 0.3 percent from the same periods last year. Excluding the negative impact of fuel sales and the retail West business unit, same-store sales would have increased 2.7 and 1.9 percent. The majority of the West impact was the result of challenges for the Safeway banner.

Gross Profit

The decrease in gross margin during the 13 and 39 weeks ended January 30, 2016 continued to be the result of the ongoing impact that merchandising and promotional programs had on customers, and the low reception of these strategies in Safeway also had a downward impact on gross margin. Gross profit was also impacted negatively by continuity program investment during the quarter and an inventory valuation adjustment recorded in the third quarter. In addition, increased promotional activity and a difficult economic environment mainly in the Alberta and Saskatchewan markets, resulted in gross margin erosion. These challenges are being addressed with high priority 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 identified in the “Significant Items” section of this MD&A, also continue to be aggressively addressed.

In addition, gross profit and gross margin continued to be impacted during the 13 and 39 weeks ended January 30, 2016 by the factors impacting sales, as well as:

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

For the 13 and 39 weeks ended January 30, 2016, 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 39 weeks ended January 30, 2016, largely due to impairments recorded for goodwill and long-lived assets, and the factors affecting sales and gross profit, as mentioned previously. Reduced expenses in the current quarter for variable components of compensation, including stock-based awards, partially offset the operational decline noted above.

The decrease in EBITDA in the 39 weeks ended January 30, 2016 was also due to the provision related to the manufacturing purchase price adjustment.

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2016**	Jan. 31, 2015	Change	**Jan. 30, 2016**	Jan. 31, 2015	Change
EBITDA	**$ (1,516.6)**	$ 284.3	$ (1,800.9)	**$ (964.0)**	$ 915.0	$ (1,879.0)
Adjustments:						
Impairments of goodwill and long-lived assets	**1,730.3**	-		**1,730.3**	-	
Distribution centre restructuring	**0.4**	-		**5.7**	-	
Organizational realignment costs	**0.1**	-		**13.6**	-	
Network rationalization reversals	**-**	(7.6)		**-**	(7.6)	
(Gain) loss on disposal of manufacturing facilities	**-**	(5.6)		**39.7**	1.6	
	1,730.8	(13.2)	1,744.0	**1,789.3**	(6.0)	1,795.3
Adjusted EBITDA	**$ 214.2**	$ 271.1	$ (56.9)	**$ 825.3**	$ 909.0	$ (83.7)

Operating Loss

For the 13 and 39 weeks ended January 30, 2016, operating loss increased due to the factors affecting sales, gross profit, and EBITDA as discussed previously.

Net Loss

For the 13 and 39 weeks ended January 30, 2016, net loss was primarily impacted by the previously discussed challenges in the West, including impairments recorded for goodwill and long-lived assets, and the provision related to the manufacturing purchase price adjustment. The decrease was partially offset by reduced expenses for variable components of compensation, including stock-based awards, in the current year compared to the prior year.

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2016**	Jan. 31, 2015	Change	**Jan. 30, 2016**	Jan. 31, 2015	Change
Net (loss) earnings(1)	**$ (1,400.5)**	$ 95.5	$ (1,496.0)	**$ (1,235.1)**	$ 309.4	$ (1,544.5)
Adjustments(2):						
Impairments of goodwill and long-lived assets	**1,443.1**	-		**1,443.1**	-	
Intangible amortization associated with the Canada Safeway acquisition	**4.7**	4.9		**14.3**	15.6	
Distribution centre restructuring	**0.3**	-		**4.2**	-	
Organizational realignment costs	**0.1**	-		**9.9**	-	
Network rationalization reversals	**-**	(5.5)		**-**	(5.5)	
(Gain) loss on disposal of manufacturing facilities	**-**	(4.4)		**31.8**	0.6	
	1,448.2	(5.0)	1,453.2	**1,503.3**	10.7	1,492.6
Adjusted net earnings(1)	**$ 47.7**	$ 90.5	$ (42.8)	**$ 268.2**	$ 320.1	$ (51.9)

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

Investments and Other Operations

($ in millions)	13 Weeks Ended Jan. 30, 2016	13 Weeks Ended Jan. 31, 2015[1]	$ Change	39 Weeks Ended Jan. 30, 2016	39 Weeks Ended Jan. 31, 2015[1]	$ Change
Operating income						
Crombie REIT[2]	**$ 7.2**	$ 7.3	$ (0.1)	**$ 20.8**	$ 23.6	$ (2.8)
Real estate partnerships[3]	**36.8**	24.2	12.6	**43.9**	43.6	0.3
Other operations, net of corporate expenses	**4.4**	6.1	(1.7)	**1.3**	5.7	(4.4)
	$ 48.4	$ 37.6	$ 10.8	**$ 66.0**	$ 72.9	$ (6.9)

(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 (January 31, 2015 – 41.5 percent interest).
(3) Interests in Genstar.

At January 30, 2016, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

($ in millions)	**January 30, 2016** Fair Value	**January 30, 2016** Carrying Value	**January 30, 2016** Unrealized Gain	May 2, 2015 Fair Value	May 2, 2015 Carrying Value	May 2, 2015 Unrealized Gain	January 31, 2015 Fair Value	January 31, 2015 Carrying Value	January 31, 2015 Unrealized Gain
Investment in associates									
Crombie REIT[1]	**$ 727.6**	**$ 351.4**	**$ 376.2**	$ 724.3	$ 365.6	$ 358.7	$ 729.9	$ 369.7	$ 360.2
Canadian real estate partnerships[2]	**167.6**	**167.6**	-	143.4	143.4	-	134.6	134.6	-
U.S. real estate partnerships[2]	**58.8**	**58.8**	-	59.3	59.3	-	54.7	54.7	-
Investment in joint ventures									-
Canadian Digital Cinema Partnership[2]	**9.5**	**9.5**	-	9.5	9.5	-	9.6	9.6	-
	$ 963.5	**$ 587.3**	**$ 376.2**	$ 936.5	$ 577.8	$ 358.7	$ 928.8	568.6	360.2

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of January 29, 2016.
(2) Assumes fair value equals carrying value.

Operating Income

For the 13 weeks ended January 30, 2016, the increase in operating income from Investments and other operations was primarily a result of the gain on the sale of two real estate development partnerships by Genstar Development Partnership II, as discussed previously.

For the 39 weeks ended January 30, 2016, the decrease in operating income from Investments and other operations was primarily a result of gains on property sales in the prior year.

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)	**Q3 Jan. 30, 2016**	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
Sales	**$ 6,027.2**	$ 6,059.2	$ 6,249.2	$ 5,770.5	$ 5,940.5	$ 5,995.1	$ 6,222.7	$ 5,944.3
EBITDA[2]	**(1,467.9)**	256.3	314.1	236.3	322.3	323.8	342.5	147.2
Operating (loss) income	**(1,589.8)**	136.0	195.5	115.9	203.4	203.7	219.4	22.7
Net (loss) earnings from continuing operations[3]	**(1,365.7)**	68.5	108.8	55.4	123.6	116.9	123.1	1.5
Net earnings (loss) from discontinued operations[4]	**-**	-	-	-	-	-	-	(0.7)
Net (loss) earnings[3]	**$ (1,365.7)**	$ 68.5	$ 108.8	$ 55.4	$ 123.6	$ 116.9	$ 123.1	$ 0.8
Per share information, basic								
Net (loss) earnings from continuing operations[3][5]	**$ (5.03)**	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.01
Net earnings (loss) from discontinued operations[4]	**-**	-	-	-	-	-	-	(0.00)
Net (loss) earnings[3][5]	**$ (5.03)**	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.00
Basic weighted average number of shares outstanding (in millions)	**271.7**	275.2	277.0	277.0	277.0	277.0	277.0	276.9
Per share information, diluted								
Net (loss) earnings from continuing operations[3][5]	**$ (5.03)**	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.01
Net earnings (loss) from discontinued operations[4]	**-**	-	-	-	-	-	-	(0.00)
Net (loss) earnings[3][5]	**$ (5.03)**	$ 0.25	$ 0.39	$ 0.20	$ 0.45	$ 0.42	$ 0.44	$ 0.00
Diluted weighted average number of shares outstanding (in millions)	**271.8**	275.5	277.5	277.5	277.2	277.0	277.0	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 (loss) 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.
(5) 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 two quarters of fiscal 2016 shows 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 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 this banner, and the provision recorded in the second quarter for manufacturing sales agreements as previously mentioned. These challenges have been identified and continue to be a top priority for management.

- The results of the third quarter of fiscal 2016 shows increased sales, but an operating loss and a net loss when compared to the same quarter in fiscal 2015. This was the result of goodwill and long-lived asset impairments, and the challenges as discussed in the "Significant Items" section of this MD&A.

- The results of the fourth quarter of fiscal 2015 shows reduced sales, when compared to the same quarter in fiscal 2014 as a result of the network rationalization, the impact on fuel sales of 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 (loss) income and net (loss) earnings, 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 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.

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2016**	Jan. 31, 2015[(1)]	Change	**Jan. 30, 2016**	Jan. 31, 2015[(1)]	Change
Net (loss) earnings	**$ (1,365.5)**	$ 124.8	$ (1,490.3)	**$ (1,174.8)**	$ 378.2	$ (1,553.0)
Non-cash and other cash items	**1,586.9**	196.1	1,390.8	**2,037.0**	618.3	1,418.7
Net change in non-cash working capital	**6.4**	30.4	(24.0)	**(127.7)**	(38.0)	(89.7)
Income taxes paid, net	**(27.4)**	(7.6)	(19.8)	**(82.5)**	(55.7)	(26.8)
Cash flows from operating activities	**200.4**	343.7	(143.3)	**652.0**	902.8	(250.8)
Cash flows used in investing activities	**(92.8)**	(31.0)	(61.8)	**(445.8)**	(125.5)	(320.3)
Cash flows used in financing activities	**(117.6)**	(366.4)	248.8	**(208.1)**	(883.8)	675.7
Decrease in cash and cash equivalents	**$ (10.0)**	$ (53.7)	$ 43.7	**$ (1.9)**	$ (106.5)	$ 104.6

(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 and 39 weeks ended January 30, 2016 was mainly the result of an increase in net loss, as previously discussed, partially offset by an increase in non-cash and other cash items. These variances can be attributed to the impairments of goodwill and long-lived assets.

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		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2016**	Jan. 31, 2015[(2)]	Change	**Jan. 30, 2016**	Jan. 31, 2015[(2)]	Change
Cash flows from operating activities	**$ 200.4**	$ 343.7	$ (143.3)	**$ 652.0**	$ 902.8	$ (250.8)
Add: proceeds on disposal of property, equipment and investment property	**82.5**	155.3	(72.8)	**130.9**	320.3	(189.4)
Less: property, equipment and investment property purchases	**(143.5)**	(171.3)	27.8	**(442.6)**	(363.4)	(79.2)
Free Cash Flow	**$ 139.4**	$ 327.7	$ (188.3)	**$ 340.3**	$ 859.7	$ (519.4)

(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.

The decrease in free cash flow for the 13 weeks ended January 30, 2016 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 from the divesture of manufacturing facilities; partially offset by
- A decrease in property, equipment and investment property purchases.

The decrease in free cash flow for the 39 weeks ended January 30, 2016 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 mainly due to the reasons mentioned above and 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 related in part to the automated distribution centre expansion in Vaughan, Ontario, the acquisition of a former Target warehouse facility in Rocky View, Alberta, and land purchased.

Investment

The increase in cash used in investing activities in the 13 and 39 weeks ended January 30, 2016 was primarily due to:

- The Co-op Atlantic acquisition;
- A reduction of proceeds on disposal of property, equipment and investment property, as discussed previously; and
- A change in property, equipment and investment property as discussed previously.

The table below outlines the number of stores Sobeys invested in during the 13 and 39 weeks ended January 30, 2016 compared to the 13 and 39 weeks ended January 31, 2015.

	13 Weeks Ended		39 Weeks Ended	
# of stores	**Jan. 30, 2016**	Jan. 31, 2015	**Jan. 30, 2016**	Jan. 31, 2015
Opened/relocated/acquired	**17**	12	**82**	50
Expanded	**3**	4	**15**	6
Rebannered/redeveloped	**5**	-	**21**	12
Closed – normal course of operations	**5**	5	**22**	20
Divested – Competition Bureau imposed	**-**	-	**-**	11
Closed – network rationalization	**2**	8	**2**	38

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended January 30, 2016, by type:

Square feet (in thousands)	**13 Weeks Ended January 30, 2016**	52 Weeks Ended January 30, 2016
Opened	**151**	886
Relocated	**57**	237
Acquired	**57**	142
Expanded	**21**	127
Closed – normal course of operations	**(53)**	(247)
Net change before the impact of the network rationalization	**233**	1,145
Closed – network rationalization	**(61)**	(149)
Net change with the impact of the network rationalization	**172**	996

At January 30, 2016, Sobeys' square footage totalled 38.5 million, a 2.7 percent increase over the 37.5 million square feet operated at the end of the third quarter last year.

Financing

The decrease in cash used in financing activities during the 13 and 39 weeks ended January 30, 2016 was primarily due to a reduction in the repayment of long-term debt to $164.9 million and $271.0 million (2015 – $357.2 million and $1,115.2 million). Cash used in financing activities for the 39 weeks ended January 30, 2016 was also impacted 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 Normal Course Issuer Bid ("NCIB") in the second quarter of fiscal 2016. These factors were 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 Company drawing down $134.0 million of the Company's $250.0 million credit facilities, of which $38.8 million was repaid during the 39 weeks ended January 30, 2016. The net proceeds were used for the share repurchase under the NCIB; and

- Sobeys drawing down $160.0 million of its revolving term credit facility, which was fully repaid during the 39 weeks ended January 30, 2016. The net proceeds were used to pay operating and capital expenses.

Employee Future Benefit Obligations

For the 13 and 39 weeks ended January 30, 2016, the Company contributed $2.4 million and $6.9 million respectively (2015 – $2.6 million and $6.9 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

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		**January 30, 2016**		May 2, 2015[1]		January 31, 2015[1][2]
Shareholders' equity,						
net of non-controlling interest	**$**	**4,613.8**	$	5,983.8	$	5,920.8
Book value per common share[3]	**$**	**16.98**	$	21.60	$	21.37
Long-term debt, including current portion	**$**	**2,387.8**	$	2,290.9	$	2,797.0
Funded debt to total capital[3]		**34.1%**		27.7%		32.1%
Net funded debt to net total capital[3]		**31.2%**		25.0%		29.5%
Funded debt to EBITDA[3][4][5]		**(3.6)x**		1.9x		2.5x
EBITDA to interest expense[3][4][6]		**(5.8)x**		8.9x		6.7x
Current assets to current liabilities		**0.8x**		0.9x		1.1x
Total assets	**$**	**10,130.2**	$	11,468.4	$	11,909.0

(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 January 31, 2015 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 to 34.1 percent at January 30, 2016 from 27.7 percent at May 2, 2015.

The funded debt to EBITDA ratio decreased to (3.6) times compared to 1.9 times at May 2, 2015. Excluding the impact of goodwill and long-lived asset impairments in the third quarter, the funded debt to EBITDA ratio would have been 2.2 times.

The decrease in the EBITDA to interest expense coverage ratio ((5.8) times versus 8.9 times at May 2, 2015) was the result of lower trailing 12-month interest expense ($114.8 million versus $137.3 million at May 2, 2015) and a lower trailing 12-month EBITDA ($(661.2) million versus $1,224.9 million at May 2, 2015). Excluding the impact of goodwill and long-lived asset impairments in the third quarter, the EBITDA to interest expense coverage ratio would have been 9.3 times.

The Company's ratio of current assets to current liabilities decreased to 0.8 times 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 39 weeks ended January 30, 2016.

Shareholders' Equity

The Company's share capital was comprised of the following on January 30, 2016:

	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	2,038.0
Class B common shares, without par value, voting	122,400,000	98,138,079	7.0
			$ 2,045.0

The decrease in shareholders' equity, net of non-controlling interest, of $1,307.0 million from the third quarter of fiscal 2015 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 NCIB of $148.1 million and dividends paid of $107.1 million. Book value per common share was $16.98 at January 30, 2016 compared to $21.37 at January 31, 2015.

The Company's share capital on January 30, 2016 compared to the same period in the last fiscal year is shown in the table below.

	13 Weeks Ended	
(Number of Shares)	**January 30, 2016**	January 31, 2015
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**173,536,260**	174,214,164
Issued during period	**-**	-
Issued and outstanding, end of period	**173,536,260**	174,214,164
Class B common shares	**98,138,079**	102,782,289
Issued and outstanding, beginning of period		
Issued during period	**-**	-
Total Issued and outstanding, end of period	**98,138,079**	102,782,289

During the 13 and 39 weeks ended January 30, 2016, the Company paid common dividends of $27.2 million and $82.2 million (2015 – $24.9 million and $74.8 million) to its equity holders. This represents a payment of $0.10 and $0.30 per share (2015 – $0.09 and $0.27 per share) for common share holders.

As at March 9, 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 3,653,792 options to acquire in aggregate 3,653,792 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 second quarter of fiscal 2016, 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 (losses) earnings for the 13 and 39 weeks ended January 30, 2016 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.

To mitigate the currency risk associated with some of the Sobeys' Euro purchases, Sobeys has entered into forward currency contracts with staggered maturities to act as a hedge against the effect of the change in the value of the CAD relative to the Euro. During the 13 and 39 weeks ended January 30, 2016, Sobeys recorded an unrealized fair value gain of $3.0 million and $7.2 million, respectively, in other comprehensive income related to the effective portion of these contracts.

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. During the 13 and 39 weeks ended January 30, 2016, Sobeys recorded an unrealized fair value gain of $1.4 million and $2.8 million, respectively, in other comprehensive income related to the effective portion of this contract.

To mitigate the price risk associated with some of the Sobeys' electricity purchases, Sobeys has entered into sales agreements with an energy marketer to fix the price on a portion of its expected usage. During the 13 and 39 weeks ended January 30, 2016, Sobeys recorded an unrealized fair value loss of $0.9 million and $0.9 million, respectively, in other comprehensive income related to the effective portion of these agreements.

Sobeys' amortizing interest rate swap to hedge the interest on a portion of Sobeys' acquisition facility matured on December 31, 2015.

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 January 30, 2016 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.

Future Accounting Policy

(i) *Leases*

In January 2016, the IASB issued IFRS 16, "Leases", which will supersede IAS 17, "Leases" and IFRIC 4, "Determining whether an Arrangement contains a Lease". IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15 "Revenue from Contracts with Customers", but the Company does not intend to do so at this time.

The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

Critical Accounting Estimates

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

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.

Impairment of goodwill and long-lived assets

Goodwill is subject to impairment testing on an annual basis. The Company performs its annual assessment of goodwill impairment during its first quarter. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are indicators that the recoverable amount of long-lived assets may be less than their carrying amount. As a result of operational challenges faced in Western Canada, primarily under the Safeway banner, and the outcome of the long-lived asset impairment test in the third quarter, the Company reviewed goodwill for impairment as at January 30, 2016.

Goodwill and long-lived assets were reviewed for impairment by determining the recoverable amount of each CGU or groups of CGUs to which the goodwill or long-lived assets relate. Management estimated the recoverable amount of the CGUs based on the higher of value-in-use ("VIU") and fair value less costs of disposal ("FVLCD"). The VIU calculations are based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future growth of profits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Actual results could vary from these estimates which may cause significant adjustments to the Company's goodwill or long-lived assets in subsequent reporting periods.

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 November 1, 2015 and ended January 30, 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 2015 annual MD&A and there have been no material changes to the specified contractual obligations between the Company and Crombie REIT during the first three quarters of 2016. However, during the third quarter of fiscal 2016, Sobeys through its wholly-owned subsidiaries, sold and leased back six properties from Crombie REIT. Cash consideration received for the properties sold was $60.7 million, resulting in a pre-tax gain of $6.5 million, which has been recognized in the condensed consolidated statements of (loss) earnings.

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.

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 (loss) 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 (loss) earnings, before finance costs (net of finance income), income taxes, depreciation, and amortization of intangibles. The exclusion of depreciation and amortization of intangibles partially eliminates the non-cash impact from operating (loss) income.

The following table reconciles GAAP measures to EBITDA:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Jan. 30, 2016**	Jan. 31, 2015[(1)]	**Jan. 30, 2016**	Jan. 31, 2015[(1)]
Net (loss) earnings	**$ (1,365.5)**	$ 124.8	**$ (1,174.8)**	$ 378.2
Income taxes	**(258.2)**	41.9	**(184.6)**	127.5
Finance costs, net	**33.9**	36.7	**101.1**	120.8
Operating (loss) income	**(1,589.8)**	203.4	**(1,258.3)**	626.5
Depreciation	**99.5**	98.2	**293.9**	298.4
Amortization of intangibles	**22.4**	20.7	**66.9**	63.7
EBITDA	**$ (1,467.9)**	$ 322.3	**$ (897.5)**	$ 988.6

(1) Amounts have been reclassified to correspond to the current period presentation on the condensed consolidated statement of (loss) 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				39 Weeks Ended			
($ in millions)		**Jan. 30, 2016**		Jan. 31, 2015[(1)]		**Jan. 30, 2016**		Jan. 31, 2015[(1)]
Finance costs, net	**$**	**33.9**	$	36.7	**$**	**101.1**	$	120.8
Plus: finance income		**0.5**		0.4		**1.7**		1.8
Plus: fair value gains on forward contracts		**0.2**		0.4		**0.4**		0.6
Less: net pension finance costs		**(3.4)**		(3.1)		**(9.4)**		(9.3)
Less: accretion expense on provisions		**(3.3)**		(2.1)		**(9.4)**		(7.0)
Interest expense	**$**	**27.9**	$	32.3	**$**	**84.4**	$	106.9
Interest expense on financial liabilities measured at amortized cost	**$**	**27.9**	$	32.2	**$**	**84.2**	$	106.5
Losses on cash flow hedges reclassified from other comprehensive income		**-**		0.1		**0.2**		0.4
Interest expense	**$**	**27.9**	$	32.3	**$**	**84.4**	$	106.9

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

- Adjusted net earnings are net (loss) 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 January 30, 2016, May 2, 2015 and January 31, 2015, respectively:

($ in millions)	**January 30, 2016**	May 2, 2015(1)	January 31, 2015(1)
Long-term debt due within one year	**$ 346.7**	$ 53.9	$ 28.1
Long-term debt	**2,041.1**	2,237.0	2,768.9
Funded debt	**2,387.8**	2,290.9	2,797.0
Less: cash and cash equivalents	**(294.0)**	(295.9)	(322.8)
Net funded debt	**2,093.8**	1,995.0	2,474.2
Total shareholders' equity, net of non-controlling interest	**4,613.8**	5,983.8	5,920.8
Net total capital	**$ 6,707.6**	$ 7,978.8	$ 8,395.0

($ in millions)	**January 30, 2016**	May 2, 2015	January 31, 2015
Funded debt	**$ 2,387.8**	$ 2,290.9	$ 2,797.0
Total shareholders' equity, net of non-controlling interest	**4,613.8**	5,983.8	5,920.8
Total capital	**$ 7,001.6**	$ 8,274.7	$ 8,717.8

(1) Amounts have been reclassified to correspond to the current period presentation on 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 (loss) 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 January 30, 2016, May 2, 2015 and January 31, 2015.

($ in millions, except per share information)		**January 30, 2016**		May 2, 2015		January 31, 2015
Shareholders' equity, net of minority interest	**$**	**4,613.8**	$	5,983.8	$	5,920.8
Shares outstanding (basic)		**271.7**		277.0		277.0
Book value per common share	**$**	**16.98**	$	21.60	$	21.37

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: March 9, 2016
Stellarton, Nova Scotia, Canada