EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 AND 52 WEEKS ENDED MAY 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited and its subsidiaries, including wholly-owned Sobeys Inc. ("Empire", "Sobeys" or the "Company") for the 13 and 52 weeks ended May 2, 2015 compared to the 13 and 52 weeks ended May 3, 2014. It should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the 52 weeks ended May 2, 2015, compared to the 52 weeks ended May 3, 2014. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The audited consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and are reported in Canadian dollars ("CAD"). These 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 June 24, 2015, unless otherwise noted.

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:

- Continued realization of benefits from the Canada Safeway ULC ("Canada Safeway") acquisition such as growth prospects, benefits from economies of scale, future business strategy, and expectations regarding operations and strategic fit which may be impacted by the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns;

- The Company's expectation that its operational and capital structure is sufficient to meet its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;

- The Company's belief that its cash and cash equivalents on hand, unutilized credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short-term and long-term obligations, all of which could be impacted by changes in the economic environment;

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

- The Company's expected use and estimated fair values of financial instruments which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;

- The Company's expectations relating to administrative and business rationalization initiatives which could be impacted by the final scope and scale of these initiatives;

- The Company's expectations regarding the retail store network rationalization including the impact on future sales and net earnings, which may be impacted by the timing of closures and realization of synergies;

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

- The Company's expectations regarding the value and timing of goodwill deductibility for income tax purposes, as it relates to the Canada Safeway acquisition, which is subject to assessment by the Canada Revenue Agency ("CRA");

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

- The Company's expectations regarding the cost savings related to the organizational realignment, which could be impacted by the number of positions eliminated.

These statements are based on management's assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives, and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflects management's estimates and expectations.

These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the "Risk Management" section of this MD&A.

Empire cautions that the list of factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements do not take into account the effect of transactions occurring after the statements have been made on the Company's business. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of June 24, 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.

Strategic Direction

Management's primary objective is to maximize the long-term sustainable value of Empire through enhancing the worth of the Company's net assets. This is accomplished through direct ownership and equity participation in businesses that management understands and believes to have the potential for long-term sustainable growth and profitability, principally food retailing and related real estate.

The Company focuses on its core strengths in food retailing and related real estate by continuing to direct its energy and capital towards growing long-term sustainable value through cash flow, income growth and cost reductions. While our core businesses are well established and profitable in their own right, they also offer Empire geographical diversification across Canada, which is considered by management to be a source of strength. Together, our core businesses reduce Empire's overall risk and volatility, thereby contributing to greater consistency in consolidated earnings growth over the long term. Going forward, the Company intends to continue to direct its resources towards the most promising opportunities within these core businesses in order to maximize long-term shareholder value.

In carrying out the Company's strategic direction, management defines its role as having four fundamental responsibilities: first, to support the development and execution of sound strategic plans for each of its operating companies; second, to regularly monitor the development and the execution of business plans within each operating company; third, to ensure that Empire is well governed as a public company; and fourth, to prudently manage its capital in order to augment the growth in its core operating businesses.

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 $23.9 billion in sales and $11.5 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 its wholly-owned subsidiary, Sobeys Inc., which as of May 2, 2015, conducted business through approximately 1,500 retail stores (corporate owned, franchised and affiliate) as well as more than 350 retail fuel locations, operating in every province and in over 900 communities across Canada.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right-format, right-sized stores, supported by superior customer service. Sobeys operates distinct store formats to better tailor its offering to the various customer segments it serves and to satisfy its customers' principal shopping requirements. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build new stores. The primary focus of these format development efforts are Sobeys' eight major banners: Sobeys, Sobeys *extra*, IGA, IGA *extra,* Safeway, Thrifty Foods, Foodland and FreshCo.

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 Inc. 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.

The Company 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 52 weeks ended May 2, 2015, Sobeys opened, relocated, acquired, expanded, rebannered, and/or redeveloped the banners in 22 and 90 stores (2014 – 41 and 332). The decrease is primarily due to the Canada Safeway acquisition of 213 full service grocery stores and 10 liquor stores which occurred in fiscal 2014, as further discussed in the "Significant Items" section of this MD&A.

Significant Items

Divestiture of Manufacturing Facilities

On July 8, 2014, Sobeys announced that it entered into an agreement with Agropur Cooperative to sell four Safeway dairy manufacturing facilities. In addition, long-term milk, yogurt and ice cream supply agreements came into effect upon transfer of the facilities to Agropur Cooperative. During the year ended May 2, 2015, all of the facilities were sold and aggregate proceeds of $344.2 million were attributed to the sales resulting in a gain of $27.0 million. All proceeds were used to repay bank borrowings.

On December 2, 2014, Sobeys entered into an agreement with Canada Bread Company, Limited to sell two bread manufacturing facilities. During the fourth quarter of fiscal 2015, the two bread manufacturing facilities were sold for proceeds of $27.8 million, resulting in a gain of $4.4 million.

Real Estate Divestitures

During the year ended May 2, 2015, Sobeys through its wholly-owned subsidiaries sold ten properties and leased back eight properties from Crombie Real Estate Investment Trust ("Crombie REIT"). Cash consideration received for the properties sold was $105.8 million, resulting in a pre-tax gain of $1.2 million, which has been recognized in the consolidated statements of earnings. The majority of proceeds received were used to repay bank borrowings.

On February 13, 2015, Sobeys sold and leased back 22 properties from Econo-Malls Holdings #19 Inc. ("Econo-Malls"). Total proceeds from the transaction were $61.6 million resulting in a gain of $24.9 million. All proceeds were used to repay bank borrowings.

Distribution Centre Restructuring

During fiscal 2015, Sobeys performed a critical review of its excess distribution centre capacity, which identified restructuring opportunities that are expected to improve net earnings as a result of cost savings within its distribution network. For the 13 weeks ended May 2, 2015, the Company recognized $53.4 million in restructuring costs associated with this initiative. The restructuring costs included $27.7 million for severance, $15.7 million in onerous leases, write downs of $9.7 million to property and equipment and intangible assets, $2.5 million in other restructuring expenses and a $2.2 million reversal of straight-line lease provisions.

Subsequent to May 2, 2015, Sobeys made a successful bid to purchase a former Target Canada Co. warehouse in Rocky View, Alberta for $50.0 million. The facility will be retro-fitted for automation and when renovations are complete, it will have the capacity to efficiently distribute dry grocery to stores in Alberta, Saskatchewan and part of Manitoba.

Co-op Atlantic Acquisition

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

Canada Safeway Acquisition

On June 12, 2013, Sobeys entered into an Asset Purchase Agreement with Safeway Inc. and its subsidiaries to acquire substantially all of the assets and select liabilities of Canada Safeway for a cash purchase price of $5.8 billion, subject to a working capital adjustment. The agreement provided for the purchase of 213 full service grocery stores under the Safeway banner in Western Canada, 200 in-store pharmacies, 62 co-located fuel stations, 10 liquor stores, 4 primary distribution centres and 12 manufacturing facilities plus the assumption of certain liabilities. The Canada Safeway acquisition closed effective November 3, 2013.

Acquisition costs of $1.3 million and $3.8 million (2014 – $3.2 million and $97.8 million) relating to external legal, consulting, due diligence, financial advisory and other closing costs incurred during the 13 and 52 weeks ended May 2, 2015 have been included in selling and administrative expenses in the consolidated statements of earnings.

Business Process

Following the close of the Canada Safeway acquisition, the Company began the process of integrating the acquired business with the Company's current operations. For the 13 and 52 weeks ended May 2, 2015, the Company recorded pre-tax integration costs of $11.3 million and $39.4 million (2014 – $8.0 million and $10.6 million), which have been included in selling and administrative expenses in the consolidated statement of earnings. In addition, Sobeys recognized synergies of $145.0 million (2014 – $29.3 million) associated with the acquisition during fiscal 2015.

During the fourth quarter of fiscal 2015, Sobeys completed a review of its business support network, which identified restructuring opportunities. This organizational realignment will strengthen the business support network and is expected to improve net earnings as a result of cost savings and maximize the efficiency of the network. For the 13 weeks ended May 2, 2015, Sobeys recognized $49.6 million in severance costs associated with the organizational realignment.

During the year, all retail stores and distribution centres have been converted to Sobeys based systems. In the fourth quarter, Sobeys converted the remaining legacy Safeway systems to the Sobeys SAP functionality which completes the technical integration phase of the Canada Safeway acquisition.

Competition Bureau Imposed Divestitures

As a condition of the regulatory clearance from the Competition Bureau for Sobeys' acquisition of substantially all of the assets and select liabilities of Canada Safeway, the Company was required to divest 23 retail stores. On February 13, 2014, Sobeys announced that it entered into binding purchase agreements with Overwaitea Food Group LP and Federated Co-operatives Limited to purchase 22 of the 23 retail stores that were required to be divested as a result of the Canada Safeway acquisition. In addition to the required divestitures, the Company agreed to sell an additional seven stores in British Columbia comprised of both Safeway and Sobeys locations. Sobeys also signed a binding purchase agreement with another retailer for the sale of one retail store which was also required to be divested as part of the Canada Safeway acquisition. The purchase agreements all received approval from the Competition Bureau.

During fiscal 2014, the Company divested 19 of the retail stores for cash proceeds of $337.7 million. The remaining 11 retail stores were divested during the first quarter of fiscal 2015 for cash proceeds of $111.3 million. All proceeds were used to repay bank borrowings.

Retail Store Network Rationalization

During the fourth quarter of fiscal 2014, Sobeys completed a detailed review of its retail store network. This review aligns with management's ongoing focus of enhancing the productivity and performance of the network and logically follows the acquisition of Canada Safeway. Based on this detailed review, Sobeys determined that consistently underperforming retail stores, representing approximately 50 stores (1.5 million of total gross square footage) and 3.8 percent of the total retail network gross square footage, were to close. Approximately sixty percent of the affected stores are located in Western Canada. This rationalization will strengthen the quality of Sobeys' store network and is expected to improve net earnings as a result of cost savings; however, it will result in a reduction in future sales of approximately $400 million or 1.9 percent of total sales on an annual basis. As of May 2, 2015, 42 retail stores, representing approximately 1.3 million square feet, have been closed.

The rationalization and restructuring costs associated with these store closures amounted to $169.8 million and were included in selling and administrative expenses for the fourth quarter ended May 3, 2014. This expense consisted of $137.1 million for severance, site closing and other costs, $35.8 million associated with the write-down of property, equipment and intangible assets, and a $3.1 million reversal of straight-line lease provisions.

During fiscal 2015, the Company reversed its decision regarding two stores that were previously identified for closure and also reviewed outstanding provisions on severance. As a result, $17.4 million in restructuring costs were reversed.

During the 13 and 52 weeks ended May 2, 2015, $1.0 million and $4.4 million (2014 – $ nil and $ nil) in financing costs, after tax, were incurred in relation to the network rationalization.

Investments and Other Operations

Empire's investments and other operations segment includes its equity investments in real estate, which are focused on: (i) the ownership of income-producing retail, office and mixed-use properties through an equity accounted ownership interest in Crombie REIT and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through its investments in Genstar.

Empire's investments and other operations segment, as of May 2, 2015 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 255 retail and office properties across Canada, comprising approximately 17.4 million square feet with a strategy to own and operate a portfolio of high quality grocery and drug store anchored shopping centres and freestanding stores primarily in Canada's top 36 markets; and

2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 48.6 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P. and GDC Investments 6, L.P., a 45.8 percent equity accounted interest in GDC Investments 7, L.P., a 43.7 percent equity accounted interest in GDC Investments 8, L.P., and a 49.0 percent equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar").

DISCONTINUED OPERATIONS

On June 27, 2013, the Company announced that it had reached a definitive agreement with Cineplex Inc. for the sale of 24 theatres and 170 screens in Atlantic Canada and 2 theatres with 48 screens in Ontario. The Company had also reached a separate definitive agreement with Landmark Cinemas for the sale of 20 theatres and 179 screens in Ontario and Western Canada. On November 1, 2013, the Company announced that Empire Theatres completed the sale of 46 theatres with 397 screens in separate transactions with Cineplex Inc. and Landmark Cinemas. The aggregate gross purchase price paid to Empire Theatres in the two transactions was approximately $259.2 million in cash.

As a result of the sale, financial results related to Empire Theatres, as previously reported in the investments and other operations segment, have been included in discontinued operations in the audited consolidated statements of earnings for the 52 weeks ended May 3, 2014. Discontinued operations are discussed and referenced throughout this MD&A. Please refer to Note 22 of the audited annual consolidated financial statements for the 52 weeks ended May 2, 2015 for greater detail on the operating results from discontinued operations.

CONSOLIDATED OPERATING RESULTS

Fiscal 2015 Highlights

- Sales of $23,928.8 million, up $2,971.0 million or 14.2 percent from fiscal 2014.
- Sobeys' same-store sales[1] increased 1.4 percent from the same period last year. Excluding the negative impact of oil prices on fuel sales, same-store sales would have increased by 1.9 percent.
- Net earnings from continuing operations, net of non-controlling interest, of $419.0 million ($4.54 per diluted share) compared to $151.0 million ($1.88 per diluted share) last year.
- Adjusted net earnings, net of non-controlling interest, of $518.9 million ($5.62 per diluted share) compared to $391.4 million ($4.88 per diluted share) last year.
- Opened, relocated or acquired 67 corporate and franchised stores, expanded 9 stores, rebannered/redeveloped 14 stores, divested 11 stores imposed by the Competition Bureau, closed 42 stores as a result of the network rationalization and 30 stores in the normal course of operations.
- Free cash flow[1] of $1,444.5 million versus $875.3 million in fiscal 2014.
- Annual dividend per Non-Voting Class A and Class B common share increased to $1.08 from $1.04 last year.

The following table is a summary of selected financial information from the Company's audited annual consolidated financial statements for the 52 weeks ended May 2, 2015 compared to the 52 weeks ended May 3, 2014 and May 4, 2013.

	52 Weeks Ended								
	May 2, 2015			May 3, 2014[2]			May 4, 2013[2][3]		
($ in millions, except per share amounts)			**% of Sales**			% of Sales			% of Sales
Sales	**$**	**23,928.8**	**100.00%**	$	20,957.8	100.00%	$	17,343.9	100.00%
EBITDA[1]		**1,226.1**	**5.12%**		755.3	3.60%		918.1	5.29%
Adjusted EBITDA[1]		**1,327.9**	**5.55%**		1,055.6	5.04%		942.9	5.44%
Operating income[1]		**743.6**	**3.11%**		328.5	1.57%		573.2	3.30%
Finance costs, net		**156.3**	**0.65%**		133.2	0.64%		55.4	0.32%
Income taxes		**150.4**	**0.63%**		36.3	0.17%		136.4	0.79%
Net earnings from continuing operations[4]		**419.0**	**1.75%**		151.0	0.72%		372.3	2.15%
Net earnings from discontinued operations		**-**	**-**		84.4	0.40%		7.2	0.04%
Net earnings[4]		**419.0**	**1.75%**		235.4	1.12%		379.5	2.19%
Adjusted net earnings from continuing operations[1][4]		**518.9**	**2.17%**		391.4	1.87%		390.7	2.25%
Basic earnings per share									
Net earnings from continuing operations[4]	**$**	**4.54**		$	1.89		$	5.48	
Net earnings from discontinued operations	**$**	**-**		$	1.05		$	0.11	
Net earnings[4]	**$**	**4.54**		$	2.94		$	5.59	
Adjusted net earnings from continuing operations[1][4]	**$**	**5.62**		$	4.89		$	5.75	
Basic weighted average number of shares outstanding (in millions)		**92.3**			80.0			67.9	
Diluted earnings per share									
Net earnings from continuing operations[4]	**$**	**4.54**		$	1.88		$	5.47	
Net earnings from discontinued operations	**$**	**-**		$	1.05		$	0.11	
Net earnings[4]	**$**	**4.54**		$	2.93		$	5.58	
Adjusted net earnings from continuing operations[1][4]	**$**	**5.62**		$	4.88		$	5.74	
Diluted weighted average number of shares outstanding (in millions)		**92.4**			80.2			68.1	
Dividend per share	**$**	**1.08**		$	1.04		$	0.96	

(1) See "Non-GAAP Financial Measures" section of this MD&A.
(2) Amounts have been reclassified to correspond to the current period presentation on the consolidated statement of earnings.
(3) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations.
(4) Net of non-controlling interest.

OUTLOOK

Empire maximizes value by supporting Sobeys' purpose to help *Canadians Eat Better, Feel Better and Do Better* while also strengthening our related real estate investments.

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing and related real estate. In doing so, we remain committed to supporting Sobeys in its goal to be widely recognized as a champion in the better food movement and the best workplace environment in Canada and capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses. Management is committed to the continued strengthening of our financial condition through the prudent management of working capital and free cash flow in each operating company.

Food Retailing

Sobeys will continue to invest in infrastructure and productivity improvements in a manner consistent with its expressed intention to build a healthy and sustainable retail business and infrastructure for the long term. This includes continuing to build a strong management team while improving the customers' in-store experience and our productivity.

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2016 to further improve store productivity. These key customer driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

Investments and Other Operations

Empire remains committed to its investment in Crombie REIT. We are confident that the strength of Sobeys' relationship with Crombie REIT, combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value.

Empire expects to continue to benefit from the distinguishing advantage inherent in Sobeys' real estate development operations, whereby it provides robust in-house expertise in the selection and development of commercial locations, which will be offered for sale to Crombie REIT.

SHAREHOLDER RETURN

The Company delivered a total shareholder return of 29.1 percent in fiscal 2015, as outlined in the following table. The compound annual return on the Company's shares over the past five years has averaged 12.2 percent and over the past ten years has averaged 10.7 percent. This compares to the compound annual return of the S&P/TSX Composite Index over the past five and ten years of 7.7 percent and 7.8 percent, respectively.

In fiscal 2015, the Company increased its dividend by 3.8 percent to $1.08 per share. On June 24, 2015, the Board approved a further dividend increase of 11.1 percent to $0.30 per share quarterly, which amounts to $1.20 per share on an annualized basis. This marks the twentieth consecutive year of Empire dividend increases. Empire's dividends are declared quarterly at the discretion of the Board.

The following table outlines Empire's total annual shareholder return for the five most recent fiscal years.

For the fiscal year ended:	**May 2, 2015**	May 3, 2014	May 4, 2013	May 5, 2012	May 7, 2011	5-Year CAGR(1)
Closing market price per share	**$ 87.45**	$ 68.63	$ 68.58	$ 57.62	$ 54.14	10.5%
Dividend paid per share	**$ 1.08**	$ 1.04	$ 0.96	$ 0.90	$ 0.80	7.9%
Dividend yield on prior year closing price	**1.6%**	1.5%	1.7%	1.7%	1.5%	
Increase in closing share price	**27.4%**	0.1%	19.0%	6.4%	2.2%	
Total annual shareholder return(2)	**29.1%**	1.5%	21.0%	8.1%	3.7%	12.2%

(1) Compound annual growth rate ("CAGR").

(2) Total annual shareholder return assumes reinvestment of quarterly dividends, and therefore may not equal the sum of dividend and share price returns in the table.

MANAGEMENT'S EXPLANATION OF CONSOLIDATED OPERATING RESULTS

The following is a review of the Company's consolidated financial performance for the 52 weeks ended May 2, 2015 compared to the 52 weeks ended May 3, 2014.

The financial performance of each of the Company's segments (food retailing and investments and other operations) is discussed in detail in the section entitled "Financial Performance by Segment" of this MD&A.

Sales

Consolidated sales for fiscal 2015 were $23,928.8 million compared to $20,957.8 million in fiscal 2014, an increase of $2,971.0 million or 14.2 percent. The increase in sales was primarily the result of sales from Safeway operations and food inflation, slightly offset by retail store divestures, store closures associated with the network rationalization and the decline in oil prices impacting fuel sales in the food retailing segment during the third and fourth quarters in the current year. During fiscal 2015, same-store sales in the food retailing segment increased 1.4 percent from the same period last year. Excluding the negative impact of oil prices on fuel sales, same-store sales would have increased by 1.9 percent.

The table below presents Empire's segmented and consolidated sales for the 52 weeks ended May 2, 2015 relative to the 52 weeks ended May 3, 2014.

	52 Weeks Ended			
($ in millions)	**May 2, 2015**	May 3, 2014(1)	($) Change	(%) Change
Segmented sales				
Food retailing	**$ 23,928.8**	$ 20,961.5	$ 2,967.3	14.2%
Investments and other operations	**-**	3.4	(3.4)	
	23,928.8	20,964.9	2,963.9	14.1%
Elimination of sales to discontinued operations	**-**	(7.1)	7.1	
Empire's consolidated sales	**$ 23,928.8**	$ 20,957.8	$ 2,971.0	14.2%

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

EBITDA

Consolidated EBITDA for the 52 weeks ended May 2, 2015 was $1,226.1 million compared to $755.3 million last year, an increase of $470.8 million or 62.3 percent. EBITDA margin increased to 5.12 percent in fiscal 2015 from 3.60 percent in fiscal 2014. The increase in EBITDA is largely attributed to Safeway operations, reduced transaction costs associated with the Canada Safeway acquisition, a reduction of network rationalization costs and a gain on the disposal of manufacturing facilities. This increase was offset by costs associated with the distribution centre restructuring and organizational realignment.

The following table adjusts the Company's EBITDA for items which are considered not indicative of underlying business operating performance.

	52 Weeks Ended	
($ in millions)	**May 2, 2015**	May 3, 2014
EBITDA[1] (consolidated)	**$ 1,226.1**	$ 755.3
Adjustments:		
Distribution centre restructuring	**53.4**	-
Organizational realignment costs	**49.6**	12.1
Inventory adjustment	**30.5**	17.1
Gain on disposal of manufacturing facilities	**(19.1)**	-
Network rationalization (reversals)	**(17.4)**	169.8
Transaction costs associated with the Canada Safeway acquisition	**3.8**	97.8
Plant closure	**1.0**	1.0
Non-operating charge from equity accounted investment[2]	**-**	2.5
	101.8	300.3
Adjusted EBITDA (consolidated)	**$ 1,327.9**	$ 1,055.6

(1) EBITDA generated from Empire Theatres has been recorded in discontinued operations for fiscal 2014.
(2) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 included a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition.

After adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for fiscal 2015 was $1,327.9 million compared to $1,055.6 million last year, an increase of $272.3 million or 25.8 percent. Adjusted EBITDA margin was 5.55 percent at the end of fiscal 2015 compared to 5.04 percent in fiscal 2014.

Operating Income

For the 52 weeks ended May 2, 2015, operating income increased $415.1 million or 126.4 percent to $743.6 million from $328.5 million reported last year. Operating income increased primarily due to Safeway operations and the factors noted in the sales and EBITDA sections above, partially offset by increased depreciation and amortization expenses related to the Canada Safeway acquisition.

Finance Costs

During fiscal 2015, finance costs, net of finance income, increased $23.1 million to $156.3 million compared to $133.2 million during the same period last year. This increase is mainly due to the Canada Safeway acquisition which resulted in higher debt levels, on average, throughout fiscal 2015 compared to the prior year. Please refer to the "Consolidated Financial Condition" section of this MD&A for further details on debt arrangements.

Interest coverage[1] increased to 5.4 times from 2.5 times for the same period last year, as a result of increased operating income due to the factors discussed in the above sections.

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

Income Taxes

The Company's effective income tax rate on continuing operations for the 52 weeks ended May 2, 2015 was 25.6 percent compared to 18.6 percent in fiscal 2014. The increase in the effective tax rate is primarily attributed to a re-measurement of the Company's deferred income tax provision completed in the prior period offset with a reduction in partial non-deductible acquisition costs attributed to the Canada Safeway acquisition.

Net Earnings and Adjusted Net Earnings from Continuing Operations

Consolidated net earnings from continuing operations, net of non-controlling interest, for the 52 weeks ended May 2, 2015 equaled $419.0 million ($4.54 per diluted share) compared to $151.0 million ($1.88 per diluted share) reported last year.

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

	52 Weeks Ended	
($ in millions, except per share amounts, net of tax)	**May 2, 2015**	May 3, 2014
Net earnings from continuing operations by segment[1]:		
Food retailing	**$ 343.5**	$ 121.8
Investments and other operations	**75.5**	29.2
Net earnings from continuing operations[1]	**$ 419.0**	$ 151.0
EPS[2] from continuing operations (fully diluted)[3]	**$ 4.54**	$ 1.88
Adjustments[4]:		
Distribution centre restructuring	**39.1**	-
Organizational realignment costs	**36.2**	8.5
Inventory adjustment	**23.0**	12.7
Intangible amortization associated with the Canada Safeway acquisition	**20.5**	10.2
Gain on disposal of manufacturing facilities	**(14.1)**	-
Network rationalization (reversals)	**(12.7)**	123.8
Finance costs associated with the network rationalization	**4.4**	-
Transaction costs associated with the Canada Safeway acquisition	**2.8**	76.0
Plant closure	**0.7**	0.8
Finance costs associated with the Canada Safeway acquisition	**-**	6.6
Non-operating charge from equity accounted investment[5]	**-**	1.8
	99.9	240.4
Adjusted net earnings from continuing operations[1]	**$ 518.9**	$ 391.4
Adjusted net earnings from continuing operations by segment[1]:		
Food retailing	**$ 443.4**	$ 354.1
Investments and other operations	**75.5**	37.3
Adjusted net earnings from continuing operations[1]	**$ 518.9**	$ 391.4
Adjusted EPS[2] from continuing operations (fully diluted)[3]	**$ 5.62**	$ 4.88

(1) Net of non-controlling interest.
(2) Earnings per share ("EPS")
(3) Empire had a weighted average number of shares outstanding (fully diluted) of 92.4 million in fiscal 2015, compared to 80.2 million in fiscal 2014.
(4) All adjustments are net of income taxes.
(5) 52 weeks ended May 3, 2014 included a non-recurring cost of $1.8 million, net of tax, related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition.

Net Earnings

The following table reconciles Empire's segmented net earnings from continuing operations, net of non-controlling interest, to net earnings, net of non-controlling interest, for 52 weeks ended May 2, 2015 compared to the 52 weeks ended May 3, 2014.

	52 Weeks Ended		($)
($ in millions, except per share amounts, net of tax)	**May 2, 2015**	May 3, 2014	Change
Net earnings from continuing operations[1]	**$ 419.0**	$ 151.0	$ 268.0
Net earnings from discontinued operations	**-**	84.4	(84.4)
Net earnings[1]	**$ 419.0**	$ 235.4	$ 183.6
Net earnings by segment[1]:			
Food retailing	**$ 343.5**	$ 121.8	$ 221.7
Investments and other operations	**75.5**	113.6	(38.1)
Net earnings[1]	**$ 419.0**	$ 235.4	$ 183.6
EPS (fully diluted)[2]	**$ 4.54**	$ 2.93	$ 1.61

(1) Net of non-controlling interest.
(2) Empire had a weighted average number of shares outstanding (fully diluted) of 92.4 million compared to 80.2 million in fiscal 2014.

Net earnings from discontinued operations for the 52 weeks ended May 2, 2015 equaled $ nil ($ nil per diluted share) compared to $84.4 million ($1.05 per diluted share) reported last year.

FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

The following is a review of Empire's food retailing segment's financial performance for the 52 weeks ended May 2, 2015 compared to the 52 weeks ended May 3, 2014.

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

	52 Weeks Ended[1]					
	May 2, 2015		May 3, 2014[2]		May 4, 2013[2][3]	
($ in millions)		**% of Sales**		% of Sales		% of Sales
Sales	**$ 23,928.8**	**100.0%**	$ 20,961.5	100.00%	$ 17,345.8	100.00%
Gross profit	**5,962.5**	**24.92%**	5,016.1	23.93%	4,013.1	23.14%
EBITDA	**1,121.9**	**4.69%**	717.9	3.42%	858.6	4.95%
Adjusted EBITDA	**1,223.7**	**5.11%**	1,006.6	4.80%	875.1	5.05%
Operating income	**639.9**	**2.67%**	291.6	1.39%	514.4	2.97%
Net earnings[4]	**343.5**	**1.44%**	121.8	0.58%	334.2	1.93%
Adjusted net earnings[4]	**443.4**	**1.85%**	354.1	1.69%	346.7	2.00%

(1) Net of consolidation adjustments which include a purchase price allocation from the privatization of Sobeys.
(2) Amounts have been reclassified to correspond to the current presentation on the consolidated statement of earnings.
(3) Amounts have been restated as a result of a change in accounting policy.
(4) Net of non-controlling interest.

To assess its financial performance and condition, Sobeys' management monitors a set of financial measures which evaluate sales growth, profitability and financial condition. The primary financial performance and condition measures reported by Sobeys are set out below.

	52 Weeks Ended		
($ in millions)	**May 2, 2015**	May 3, 2014[1]	May 4, 2013[2]
Sales growth	**14.2%**	20.8%	8.3%
Same store sales growth	**1.4%**	0.0%	1.3%
Return on equity[3]	**7.1%**	3.1%	12.6%
Funded debt to total capital[3]	**31.6%**	41.7%	20.9%
Funded debt to EBITDA[3]	**2.0x**	4.7x	0.9x
Property, equipment and investment property purchases[4]	**$ 497.2**	$ 553.8	$ 508.1

(1) 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 this MD&A.
(2) Amounts have been restated as a result of a change in accounting policy.
(3) See "Non-GAAP Financial Measures" section of this MD&A.
(4) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

Sales

In fiscal 2015, Sobeys reported sales of $23,928.8 million, an increase of $2,967.3 million or 14.2 percent, from $20,961.5 million recorded in fiscal 2014. The increase was primarily the result of sales from Safeway operations and food inflation, slightly offset by retail store divestures, store closures associated with the network rationalization and the decline in oil prices impacting fuel sales during the third and fourth quarters in the current year. During fiscal 2015, same-store sales increased 1.4 percent from the same period last year. Excluding the negative impact of oil prices on fuel sales, same-store sales would have increased by 1.9 percent.

Gross Profit

Gross profit for the 52 weeks ended May 2, 2015, was $5,962.5 million, an increase of $946.4 million or 18.9 percent compared to $5,016.1 million for the same period in the prior year. For the year ended May 2, 2015, gross margin increased 99 basis points to 24.92 percent compared to 23.93 for the year ended May 3, 2014. The increase in gross profit is mainly the result of Safeway operations combined with synergies realized during the fiscal year relating to the Canada Safeway acquisition and new retail selling square footage, which was partially offset, as expected, by the store divestitures, network rationalization and a one-time inventory adjustment.

Overall gross profit and gross margin were impacted during the 52 weeks ended May 2, 2015 by the following factors:

(i) The Canada Safeway acquisition, store divestitures, network rationalization and related synergies;

(ii) Inflation;

(iii) Inventory adjustment due to revising certain estimates and assumptions in the determination of cost of retail inventories;

(iv) Continued competitive intensity; and

(v) A weaker CAD relative to the United States dollar ("USD") which affected the CAD cost of USD purchases.

For the 52 weeks ended May 2, 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

EBITDA for the 52 weeks ended May 2, 2015 was $1,121.9 million, an increase of $404.0 million or 56.3 percent compared to $717.9 million for the same period last year. The increase in EBITDA is largely attributed to Safeway operations, reduced transaction costs associated with the Canada Safeway acquisition, a reduction of network rationalization costs and a gain on the disposal of manufacturing facilities. This increase was offset by costs associated with the distribution centre restructuring and organizational realignment. These combined with the factors affecting sales and gross profit, as previously mentioned, had a net positive effect on EBITDA in the current period.

Sobeys' contributed EBITDA margin for the 52 weeks ended May 2, 2015 increased 127 basis points to 4.69 percent from 3.42 percent. Excluding items which are considered not indicative of underlying business operating performance as summarized in the following table, adjusted EBITDA for the 52 weeks ended May 2, 2015 and May 3, 2014 was $1,223.7 million and $1,006.6 million, respectively. Adjusted EBITDA margin for the 52 weeks ended May 2, 2015 was 5.11 percent, an increase of 31 basis points over the same period last year.

The following table adjusts Sobeys' contributed EBITDA for items which are considered not indicative of underlying business operating performance.

	52 Weeks Ended	
($ in millions)	**May 2, 2015**	May 3, 2014
EBITDA (contributed by Sobeys)	**$ 1,121.9**	$ 717.9
Adjustments:		
Distribution centre restructuring	**53.4**	-
Organizational realignment costs	**49.6**	3.0
Inventory adjustment	**30.5**	17.1
Gain on disposal of manufacturing facilities	**(19.1)**	-
Network rationalization (reversals)	**(17.4)**	169.8
Transaction costs associated with the Canada Safeway acquisition	**3.8**	97.8
Plant closure	**1.0**	1.0
	101.8	288.7
Adjusted EBITDA	**$ 1,223.7**	$ 1,006.6

Operating Income

For the 52 weeks ended May 2, 2015, Sobeys' contribution to operating income increased $348.3 million or 119.4 percent, to $639.9 million from $291.6 million reported in the same period last year. Operating income increased primarily due to Safeway operations and the factors noted in the sales and EBITDA sections above, partially offset by increased depreciation and amortization expenses related to the Canada Safeway acquisition.

Net Earnings

Sobeys contributed net earnings, net of non-controlling interest, for the 52 weeks ended May 2, 2015 were $343.5 million, an increase of $221.7 million over the same period last year. This increase is mainly due to Safeway operations, synergies realized, reduced costs associated with the network rationalization and reduced transaction costs, offset by increases in costs associated with the distribution centre restructuring and organizational realignment. Adjusted net earnings for the current fiscal year were $443.4 million, or $89.3 million higher than the same period last year.

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

	52 Weeks Ended	
($ in millions)	**May 2, 2015**	May 3, 2014
Net earnings (contributed by Sobeys)[1]	**$ 343.5**	$ 121.8
Adjustments [2]:		
Distribution centre restructuring	**39.1**	-
Organizational realignment costs	**36.2**	2.2
Inventory adjustment	**23.0**	12.7
Intangible amortization associated with the Canada Safeway acquisition	**20.5**	10.2
Gain on disposal of manufacturing facilities	**(14.1)**	-
Network rationalization (reversals)	**(12.7)**	123.8
Finance costs associated with the network rationalization	**4.4**	-
Transaction costs associated with the Canada Safeway acquisition	**2.8**	76.0
Plant closure	**0.7**	0.8
Finance costs associated with the Canada Safeway acquisition	**-**	6.6
	99.9	232.3
Adjusted net earnings[1]	**$ 443.4**	$ 354.1

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

Investments and Other Operations

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

	52 Weeks Ended		($)
($ in millions)	**May 2, 2015**	May 3, 2014	Change
Sales[1]	**$ -**	$ 3.4	$ (3.4)
EBITDA[1]	**104.2**	37.4	66.8
Operating income (loss)			
Crombie REIT[2][3]	**30.6**	19.2	11.4
Real estate partnerships[4]	**54.7**	30.4	24.3
Other operations, net of corporate expenses[1][5]	**18.4**	(12.7)	31.1
	103.7	36.9	66.8
Net earnings from continuing operations	**75.5**	29.2	46.3
Net earnings from discontinued operations	**-**	84.4	(84.4)
Net earnings	**75.5**	113.6	(38.1)

(1) Results generated from Empire Theatres have been recorded in discontinued operations for fiscal 2014.
(2) 41.5 percent equity accounted interest in Crombie REIT (May 3, 2014 – 41.6 percent interest).
(3) Equity earnings from Crombie REIT for the 52 weeks ended May 3, 2014 included a non-recurring cost of $2.5 million related to arranging financing on the 70 properties acquired by Crombie REIT as part of the Canada Safeway acquisition.
(4) Interests in Genstar.
(5) 52 weeks ended May 3, 2014 included organizational realignment and restructuring costs of $9.1 million.

At May 2, 2015, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	May 2, 2015			May 3, 2014		
($ in millions)	**Fair Value**	**Carrying Value**	**Unrealized Gain**	Fair Value	Carrying Value	Unrealized Gain
Investment in associates						
Crombie REIT	**$ 724.3**	**$ 365.6**	**$ 358.7**	$ 682.9	$ 333.5	$ 349.4
Canadian real estate partnerships(1)	**143.4**	**143.4**	**-**	143.7	143.7	-
U.S. real estate partnerships(1)	**59.3**	**59.3**	**-**	67.3	67.3	-
Investment in joint ventures						
Canadian Digital Cinema Partnership(1)	**9.5**	**9.5**	**-**	9.7	9.7	-
	$ 936.5	**$ 577.8**	**$ 358.7**	$ 903.6	$ 554.2	$ 349.4

(1) Assumes fair value equals carrying value.

In fiscal 2015, Crombie REIT's market capitalization surpassed $1,746.0 million with Empire's investment carrying a fair value of $724.3 million.

Operating Income

For the 52 weeks ended May 2, 2015, investments and other operations reported operating income of $103.7 million compared to $36.9 million in the same period last year, an increase of $66.8 million.

The contributors to operating income in fiscal 2015 were as follows:

- Equity accounted earnings from the Company's investment in Crombie REIT were $30.6 million for the 52 weeks ended May 2, 2015, up $11.4 million from the $19.2 million recorded in the same period last year. This was driven primarily by gains on property sales and improved year-over-year operating results.
- Equity accounted earnings from the Company's investments in real estate partnerships (Genstar) were $54.7 million in the 52 weeks ended May 2, 2015, an increase of $24.3 million compared to $30.4 million recorded in the same period last year, primarily as a result of stronger lot and housing sales.
- Other operations, net of corporate expenses, contributed operating income of $18.4 million in the 52 weeks ended May 2, 2015, an improvement of $31.1 million from the $(12.7) million loss recorded in the same period last year. The improvement can be attributed to organizational realignment and restructuring costs of $ nil in the current year compared to costs incurred of $9.1 million in the prior year combined with the reversal of deferred gains on properties sold by Crombie REIT.

Net Earnings

For the 52 weeks ended May 2, 2015, investments and other operations contributed $75.5 million to Empire's consolidated net earnings compared to $113.6 million in the same period last year. The $38.1 million decline is attributed to a decrease in net earnings from discontinued operations of $84.4 million and is partially offset by an increase in net earnings from continuing operations of $46.3 million. The $84.4 million decrease in net earnings from discontinued operations is primarily attributed to a $104.2 million gain on disposal of assets relating to the sale of Empire Theatres in fiscal 2014.

QUARTERLY RESULTS OF OPERATIONS

The following table is a summary of selected financial information from the Company's unaudited interim condensed consolidated financial statements for each of the eight most recently completed quarters:

($ in millions, except per share amounts)	Fiscal 2015 Q4 May 2, 2015	Q3 Jan. 31, 2015	Q2 Nov. 1, 2014	Q1 Aug. 2, 2014	Fiscal 2014[(1)] Q4 May 3, 2014	Q3 Feb. 1, 2014	Q2 Nov. 2, 2013	Q1 Aug. 3, 2013
Sales	**$ 5,770.5**	$ 5,940.5	$ 5,995.1	$ 6,222.7	$ 5,944.3	$ 6,003.9	$ 4,414.3	$ 4,595.3
EBITDA	**236.6**	322.5	324.3	342.7	147.4	188.9	196.8	222.2
Operating income	**116.2**	203.6	204.2	219.6	22.9	65.3	106.4	133.9
Net earnings from continuing operations[(2)]	**55.4**	123.6	116.9	123.1	1.5	6.4	60.5	82.6
Net earnings (loss) from discontinued operations	**-**	-	-	-	(0.7)	(6.0)	108.7	(17.6)
Net earnings[(2)]	**$ 55.4**	$ 123.6	$ 116.9	$ 123.1	$ 0.8	$ 0.4	$ 169.2	$ 65.0
Per share information, Basic								
Net earnings from continuing operations[(2)]	**$ 0.60**	$ 1.34	$ 1.27	$ 1.33	$ 0.02	$ 0.07	$ 0.89	$ 1.22
Net earnings (loss) from discontinued operations	**-**	-	-	-	(0.01)	(0.07)	1.60	(0.26)
Net earnings[(2)]	**$ 0.60**	$ 1.34	$ 1.27	$ 1.33	$ 0.01	$ -	$ 2.49	$ 0.96
Basic weighted average number of shares outstanding (in millions)	**92.3**	92.3	92.3	92.3	92.3	92.0	68.0	67.9
Per share information, diluted								
Net earnings from continuing operations[(2)]	**$ 0.60**	$ 1.34	$ 1.27	$ 1.33	$ 0.02	$ 0.07	$ 0.89	$ 1.21
Net earnings (loss) from discontinued operations	**-**	-	-	-	(0.01)	(0.07)	1.59	(0.26)
Net earnings[(2)]	**$ 0.60**	$ 1.34	$ 1.27	$ 1.33	$ 0.01	$ -	$ 2.48	$ 0.95
Diluted weighted average number of shares outstanding (in millions)	**92.5**	92.4	92.3	92.3	92.4	92.1	68.2	68.2

(1) Amounts have been reclassified to correspond to the current period presentation on condensed consolidated statement of earnings.
(2) Net of non-controlling interest.

Sales have decreased this quarter over the comparable quarter in the prior year by 2.9 percent. This decrease aligns with the expectation that the network rationalization would result in a reduction in sales on a yearly basis of approximately $400 million, combined with the negative impact of declining oil price on fuel sales during the quarter and decreased sales due to the Competition Bureau imposed divestitures. This was consistent with the third quarter which had similar factors affecting its sales decrease. For the remaining two comparative quarters shown above, the Company's sales show improvement compared to the same quarter of the prior year. The ongoing improvement in sales is driven primarily by acquisition activity and organic growth as a result of the Company's adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution, and product and services innovation.

Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. Sobeys does experience some seasonality as evidenced in the results presented above, in particular during the summer months and over the holidays.

The quarter ended February 1, 2014 was the first quarter which included Safeway operations. Consolidated sales and net earnings, net of non-controlling interest, have been influenced by Safeway operations, the Company's other investing activities, the competitive environment, cost management initiatives, food price and general industry trends, the cyclicality of both residential and commercial real estate, and by other risk factors as outlined in the "Risk Management" section of this MD&A.

RESULTS OF FOURTH QUARTER OPERATIONS

Consolidated Operating Results

The following is a review of Empire's consolidated financial performance for the 13 weeks ended May 2, 2015 compared to the 13 weeks ended May 3, 2014.

	13 Weeks Ended				
	May 2, 2015			May 3, 2014[1]	
($ in millions, except per share amounts)			**% of Sales**		% of Sales
Sales	**$**	**5,770.5**	**100.00%**	$ 5,944.3	100.00%
Gross profit[2]		**1,455.9**	**25.23%**	1,513.2	25.45%
EBITDA		**236.6**	**4.10%**	147.4	2.48%
Adjusted EBITDA		**340.9**	**5.91%**	321.4	5.41%
Operating income		**116.2**	**2.01%**	22.9	0.39%
Finance costs, net		**34.6**	**0.60%**	47.6	0.80%
Income taxes		**22.9**	**0.40%**	(26.7)	(0.45)%
Net earnings from continuing operations[3]		**55.4**	**0.96%**	1.5	0.03%
Net earnings (loss) from discontinued operations		**-**	**-**	(0.7)	(0.01)%
Net earnings[3]		**55.4**	**0.96%**	0.8	0.01%
Adjusted net earnings from continuing operations[3]		**138.7**	**2.40%**	132.1	2.22%
Basic earnings per share					
Net earnings from continuing operations[3]	**$**	**0.60**		$ 0.02	
Net earnings (loss) from discontinued operations	**$**	**-**		$ (0.01)	
Net earnings[3]	**$**	**0.60**		$ 0.01	
Adjusted net earnings from continuing operations[3]	**$**	**1.50**		$ 1.43	
Basic weighted average number of shares outstanding (in millions)		**92.3**		92.3	
Diluted earnings per share					
Net earnings from continuing operations[3]	**$**	**0.60**		$ 0.02	
Net earnings (loss) from discontinued operations	**$**	**-**		$ (0.01)	
Net earnings[3]	**$**	**0.60**		$ 0.01	
Adjusted net earnings from continuing operations[3]	**$**	**1.50**		$ 1.43	
Diluted weighted average number of shares outstanding (in millions)		**92.5**		92.4	

(1) Amounts have been reclassified to correspond to the current presentation on the consolidated statement of earnings.
(2) Gross profit amounts and corresponding ratios are calculated using food retail segment results.
(3) Net of non-controlling interest.

Sales

Consolidated sales for fourth quarter were $5,770.5 million compared to $5,944.3 million last year, a decrease of $173.8 million or 2.9 percent. The decline in sales, as expected, was primarily the result of retail store divestitures, store closures associated with the network rationalization and the decline in oil prices impacting fuel sales in the food retailing segment. These negative pressures on sales have been partially offset by food inflation in the food retailing segment. During the fourth quarter of fiscal 2015, same-store sales increased 0.8 percent from the same period last year. Excluding the negative impact of oil prices on fuel sales, same-store sales would have increased by 2.1 percent.

Gross Profit

For the fourth quarter of fiscal 2015, gross profit was $1,455.9 million, a decrease of $57.3 million or 3.8 percent compared to $1,513.2 million for the same period in the prior year. The decrease in gross profit for the 13 weeks ended May 2, 2015, as compared to the prior year, was mainly the result of a one-time inventory adjustment of $30.5 million (2014 – $ nil), associated with a change in estimate in the costing of retail inventory. This adjustment was coupled with store divestitures and network rationalization, partially offset by synergies realized during the fourth quarter related to the Canada Safeway acquisition. For the fourth quarter of fiscal 2015, gross margin decreased 22 basis points to 25.23 percent compared to 25.45 percent for the fourth quarter of fiscal 2014. Excluding the negative impact of the inventory adjustment, gross margin would have increased by 31 basis points over the same period in the prior year to 25.76 percent.

Overall gross profit and gross margin were impacted during the 13 weeks ended May 2, 2015 by the following factors:

(i) The Canada Safeway acquisition, store divestitures, network rationalization and related synergies;

(ii) Inflation;

(iii) Inventory adjustment due to revising certain estimates and assumptions in the determination of cost of retail inventories;

(iv) Continued competitive intensity; and

(v) A weaker CAD relative to the USD which affected the CAD cost of USD purchases.

For the 13 weeks ended May 2, 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

Consolidated EBITDA for the fourth quarter of fiscal 2015 was $236.6 million compared to $147.4 million in the same period last year, an increase of $89.2 million or 60.5 percent. EBITDA margin increased to 4.10 percent in fiscal 2015 from 2.48 percent in the same period last year. The increase in EBITDA was primarily the result of synergies realized of $46.1 million (2014 – $23.0 million) related to the Canada Safeway acquisition, reduced costs associated with the network rationalization and a gain on the disposal of manufacturing facilities, offset by an increase in distribution centre restructuring and organizational realignment costs. These, combined with the factors affecting sales and gross profit, as mentioned previously, had a net positive effect on EBITDA in the current quarter.

The following table adjusts the Company's EBITDA for items which are considered not indicative of underlying business operating performance.

	13 Weeks Ended	
($ in millions)	**May 2, 2015**	May 3, 2014
EBITDA[1] (consolidated)	**$ 236.6**	$ 147.4
Adjustments:		
Distribution centre restructuring	**53.4**	-
Organizational realignment costs	**49.6**	-
Inventory adjustment	**30.5**	-
Gain on disposal of manufacturing facilities	**(20.7)**	-
Network rationalization (reversals)	**(9.8)**	169.8
Transaction costs associated with the Canada Safeway acquisition	**1.3**	3.2
Plant closure	**-**	1.0
	104.3	174.0
Adjusted EBITDA (consolidated)	**$ 340.9**	$ 321.4

(1) EBITDA generated from Empire Theatres has been recorded in discontinued operations for fiscal 2014.

After adjusting for items which are considered not indicative of underlying business operating performance, consolidated adjusted EBITDA for the fourth quarter of fiscal 2015 was $340.9 million compared to $321.4 million last year, an increase of $19.5 million or 6.1 percent. Adjusted EBITDA margin was 5.91 percent at the end of the fourth quarter compared to 5.41 percent in the same period last year.

Operating Income

Operating income increased $93.3 million to $116.2 million in the fourth quarter of fiscal 2015 compared to $22.9 million reported in the same period last year. Operating income was impacted primarily by the factors noted in the sales and EBITDA sections above.

Finance Costs

For the fourth quarter of fiscal 2015, finance costs, net of finance income, decreased $13.0 million to $34.6 million compared to $47.6 million during the same period last year. This decrease is primarily the result of a lower interest expense due to decreased debt levels from the repayment of debt. Interest coverage increased to 3.8 times from 0.5 times for the same period last year as a result of increased operating income and decreased interest expense.

Please refer to the "Consolidated Financial Condition" section of this MD&A for further description of the debt arrangements.

Income Taxes

The Company's effective income tax rate on continuing operations for the fourth quarter of fiscal 2015 was 28.1 percent compared to 108.1 percent in fiscal 2014. The decrease in the effective tax rate is primarily attributed to a reduction in partial non-deductible acquisition costs attributed to the Canada Safeway, combined with a lower earnings before income taxes on which to calculate the effective tax rate in the prior period, offset with a re-measurement of the Company's deferred income tax provision completed in the fourth quarter of fiscal 2014.

Net Earnings and Adjusted Net Earnings from Continuing Operations

Consolidated net earnings from continuing operations, net of non-controlling interest for the 13 weeks ended May 2, 2015 equaled $55.4 million ($0.60 per diluted share) compared to $1.5 million ($0.02 per diluted share) in the same period last year.

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

	13 Weeks Ended			
($ in millions, except per share amounts, net of tax)		**May 2, 2015**		May 3, 2014
Net earnings (loss) from continuing operations by segment[1]:				
Food retailing	**$**	**34.1**	$	(17.6)
Investments and other operations		**21.3**		19.1
Net earnings from continuing operations[1]	**$**	**55.4**	$	1.5
EPS from continuing operations (fully diluted)[2]	**$**	**0.60**	$	0.02
Adjustments [3]:				
Distribution centre restructuring		**39.1**		-
Organizational realignment costs		**36.2**		-
Inventory adjustment		**23.0**		-
Gain on disposal of manufacturing facilities		**(14.7)**		-
Network rationalization (reversals)		**(7.2)**		123.8
Intangible amortization associated with the Canada Safeway acquisition		**4.9**		3.5
Transaction costs associated with the Canada Safeway acquisition		**1.0**		2.5
Finance costs associated with the network rationalization		**1.0**		-
Plant closure		**-**		0.8
		83.3		130.6
Adjusted net earnings from continuing operations[1]	**$**	**138.7**	$	132.1
Adjusted net earnings from continuing operations by segment[1]:				
Food retailing	**$**	**117.4**	$	113.0
Investments and other operations		**21.3**		19.1
Adjusted net earnings from continuing operations[1]	**$**	**138.7**	$	132.1
Adjusted EPS from continuing operations (fully diluted)[2]	**$**	**1.50**	$	1.43

(1) Net of non-controlling interest.
(2) Empire had a weighted average number of shares outstanding (fully diluted) of 92.5 million in the fourth quarter of fiscal 2015, compared to 92.4 million in fiscal 2014.
(3) All adjustments are net of income taxes.

Net Earnings

The following table reconciles Empire's segmented net earnings from continuing operations, net of non-controlling interest, to net earnings, net of non-controlling interest, for 13 weeks ended May 2, 2015 compared to the 13 weeks ended May 3, 2014.

	13 Weeks Ended					($)
($ in millions, except per share amounts, net of tax)		**May 2, 2015**		May 3, 2014		Change
Net earnings from continuing operations[1]	**$**	**55.4**	$	1.5	$	53.9
Net (loss) earnings from discontinued operations		**-**		(0.7)		0.7
Net earnings[1]	**$**	**55.4**	$	0.8	$	54.6
Net earnings (loss) by segment[1]:						
Food retailing	**$**	**34.1**	$	(17.6)	$	51.7
Investments and other operations		**21.3**		18.4		2.9
Net earnings[1]	**$**	**55.4**	$	0.8	$	54.6
EPS (fully diluted)[2]	**$**	**0.60**	$	0.01	$	0.59

(1) Net of non-controlling interest.
(2) Empire had a weighted average number of shares outstanding (fully diluted) of 92.5 million compared to 92.4 million in fiscal 2014.

Net earnings (loss) from discontinued operations for the 13 weeks ended May 2, 2015 equaled $ nil ($ nil per diluted share) compared to $(0.7) million ($(0.01) per diluted share) in the comparable period last year.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights major cash flow components for the 13 and 52 weeks ended May 2, 2015 compared to the 13 and 52 weeks ended May 3, 2014.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 2, 2015**	May 3, 2014	**May 2, 2015**	May 3, 2014[(1)]
Net earnings	**$ 58.7**	$ 1.3	**$ 436.9**	$ 243.4
Non-cash and other cash items	**210.3**	315.5	**829.5**	717.2
Net change in non-cash working capital	**23.2**	165.0	**(15.7)**	36.3
Income taxes paid, net	**(34.5)**	(43.1)	**(90.2)**	(211.6)
Cash flows from operating activities	**257.7**	438.7	**1,160.5**	785.3
Cash flows from (used in) investing activities	**283.5**	178.0	**146.6**	(4,865.6)
Cash flows (used in) from financing activities	**(568.1)**	(472.0)	**(1,440.5)**	4,054.4
(Decrease) increase in cash and cash equivalents	**$ (26.9)**	$ 144.7	**$ (133.4)**	$ (25.9)

(1) 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 this MD&A.

Operations

Cash flows from operating activities for the fourth quarter generated $257.7 million compared to $438.7 million in the same period in fiscal 2014, a decrease of $181.0 million. This decrease was mainly the result of decreases in the net change in non-cash working capital and non-cash and other items for the fourth quarter of 2015.

During the 52 weeks ended May 2, 2015, cash flows from operating activities were $1,160.5 million compared to $785.3 million in the prior year, an increase of $375.2 million. This increase was mainly the result of an increase in net earnings for the 52 weeks ended May 2, 2015.

The following table presents non-cash working capital and the breakdown of net change in non-cash working capital in the fourth quarter of fiscal 2015 compared to the net change in the fourth quarter of fiscal 2014.

			13 Weeks Ended	
($ in millions)	**May 2, 2015**	January 31, 2015	**Q4 F2015 Change**	Q4 F2014 Change
Receivables	**$ 507.4**	$ 482.0	**$ (25.4)**	$ (36.0)
Inventories	**1,260.6**	1,342.2	**81.6**	13.0
Prepaid expenses	**120.5**	83.5	**(37.0)**	(20.8)
Accounts payable and accrued liabilities	**(2,265.8)**	(2,247.5)	**18.3**	205.7
Provisions	**(122.1)**	(69.8)	**52.3**	49.9
Impact of reclassifications on working capital	**66.6**	-	**(66.6)**	(46.8)
Total	**$ (432.8)**	$ (409.6)	**$ 23.2**	$ 165.0

In the fourth quarter of fiscal 2015:

- Inventories decreased $81.6 million compared to a decrease of $13.0 million during the same period last year, due to a one-time inventory adjustment described in the "Gross Profit" section of this MD&A and the sale of six manufacturing facilities that were held during the fourth quarter of fiscal 2014.

- Accounts payable and accrued liabilities increased $18.3 million compared to an increase of $205.7 million during the same period last year due to the change in how inventories are secured due to divestiture of manufacturing facilities.

Investment

Cash from investing activities of $283.5 million in the fourth quarter of fiscal 2015 increased $105.5 million compared to $178.0 million in the comparable period last year. The increase was primarily due to an increase in proceeds from the disposal of property, equipment and investment property.

For the 52 weeks ended May 2, 2015, cash from investing activities was $146.6 million compared to cash used of $4,865.6 million last year, an increase of $5,012.2 million. The increase was primarily due to a reduction in business acquisition costs to $11.7 million (2014 – $5,825.0 million), partially offset by a decrease in proceeds from the disposal of property, equipment and investment property related to the Canada Safeway acquisition in the prior year.

The table below outlines the number of stores Sobeys invested in during the 13 and 52 weeks ended May 2, 2015 compared to the 13 and 52 weeks ended May 3, 2014.

	13 Weeks Ended		52 Weeks Ended	
# of stores	**May 2, 2015**	May 3, 2014	**May 2, 2015**	May 3, 2014
Opened/relocated/acquired	**17**	37	**67**	94
Acquired in Canada Safeway Acquisition	**-**	-	**-**	223
Expanded	**3**	1	**9**	4
Rebannered/redeveloped	**2**	3	**14**	11
Closed – normal course of operations	**12**	23	**30**	45
Divested – Competition Bureau imposed	**-**	19	**11**	19
Closed – network rationalization	**4**	-	**42**	-

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 2, 2015, by type:

Square feet (in thousands)	**13 Weeks Ended May 2, 2015**	52 Weeks Ended May 2, 2015
Opened	**74**	466
Relocated	**134**	134
Acquired	**5**	145
Converted	**-**	(2)
Expanded	**10**	39
Closed – normal course of operations	**(66)**	(125)
Net change before the impact of the Competition Bureau imposed divestitures and network rationalization	**157**	657
Divested – Competition Bureau imposed	**-**	(421)
Closed – network rationalization	**(87)**	(1,295)
Net change with the impact of the Competition Bureau imposed divestitures and network rationalization	**70**	(1,059)

At May 2, 2015, Sobeys' square footage totaled 37.7 million square feet, a 2.6 percent decrease over the 38.7 million square feet operated at the end of the fourth quarter last year. This decrease in square footage over the same period last year was primarily due to the required divestitures as imposed by the Competition Bureau and from the network rationalization.

Excluding the impact of the Competition Bureau imposed divestitures and the network rationalization, Sobeys' square footage at May 2, 2015 increased 1.8 percent compared to square footage operated at May 3, 2014.

Financing

During the fourth quarter of fiscal 2015, financing activities resulted in cash used of $568.1 million compared to $472.0 million used in the fourth quarter of fiscal 2014. The increase in cash used was primarily attributable to the increase in repayment of long-term debt in the current fiscal year.

For the 52 weeks ended May 2, 2015, cash used in financing activities equaled $1,440.5 million compared to cash generated from financing activities of $4,054.4 million in the same period last year. The decrease was attributable to the issuance of long-term debt and common shares in fiscal 2014, and the increase in repayment of long-term debt in the current fiscal year. The funds obtained from the issuance of the long-term debt and common shares in fiscal 2014 were used to partially finance the Canada Safeway acquisition.

During the 52 weeks ended May 2, 2015, Sobeys completed a private placement of $300.0 million aggregate principal amount of floating rate senior unsecured notes. 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.

Guarantees and Commitments

The following table presents the Company's commitments and other obligations that will come due over the next five fiscal years as at May 2, 2015.

($ in millions)	2016	2017	2018	2019	2020	Thereafter	Total
Guarantees							
Franchises and affiliates	$ 13.4	$ -	$ -	$ -	$ -	$ -	$ 13.4
Commitments							
Long-term debt[(1)]	42.7	324.1	207.3	607.9	15.9	1,066.9	2,264.8
Finance lease liabilities[(2)]	11.2	11.0	8.9	7.2	5.9	21.6	65.8
Third party operating leases, as lessee[(3)]	226.2	209.8	192.6	178.2	164.7	920.7	1,892.2
Related party operating leases, as lessee[(3)]	128.1	126.7	126.4	127.6	127.3	1,492.2	2,128.3
Contractual obligations	421.6	671.6	535.2	920.9	313.8	3,501.4	6,364.5
Operating leases, as lessor	(19.5)	(17.3)	(15.6)	(13.7)	(11.1)	(67.1)	(144.3)
Contractual obligations, net	$ 402.1	$ 654.3	$ 519.6	$ 907.2	$ 302.7	$ 3,434.3	$ 6,220.2

(1) Principal debt repayments.
(2) Present value of minimum lease payments (future minimum lease payments less interest).
(3) Net of sub-lease income.

Guarantees

Franchisees and Affiliates

Sobeys is party to a number of franchise and operating agreements as part of its business model. These agreements contain clauses which require the Company to provide support to franchisees and affiliates to offset or mitigate retail store losses, reduce store rental payments, minimize the impact of promotional pricing, and assist in covering other store related operating expenses. Not all of the financial support noted above will apply in each instance as the provisions of the agreements vary. The Company will continue to provide financial support pursuant to the franchise and operating agreements in future years.

Sobeys has a guarantee contract under the terms of which, should certain franchisees and affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 million or 9.9 percent (2014 – $7.0 million or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 2, 2015, the amount of the guarantee was $7.0 million (2014 – $7.0 million).

Sobeys has guaranteed certain equipment leases of its franchisees and affiliates. Under the terms of the guarantee, should franchisees and affiliates be unable to fulfill their equipment lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $145.0 million on a cumulative basis. Sobeys approves each of the contracts.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain franchisees and affiliates for the purchase and installation of equipment. Under the terms of the contract, should franchisees and affiliates be unable to fulfill their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 million or 10.0 percent (2014 – $6.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain franchisees and affiliates. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SEs. As at May 2, 2015, the amount of the guarantee was $6.0 million (2014 – $6.0 million).

Commitments

Finance Lease Liabilities

During fiscal 2015, the Company increased its finance lease obligation by $5.8 million (2014 – $2.4 million) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

Operating Leases, as Lessee

The Company leases various retail stores, distribution centres, offices, and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options, and bases on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 2, 2015 is approximately $4,020.5 million. This reflects a gross lease obligation of $4,939.8 million reduced by expected sub-lease income of $919.3 million.

The Company recorded $517.4 million (2014 – $500.0 million) as an expense for minimum lease payments for the year ended May 2, 2015 in the consolidated statements of earnings. The expense was offset by sub-lease income of $161.8 million (2014 – $155.9 million), and a further $11.5 million (2014 – $11.9 million) of expense was recognized for contingent rent.

Operating Leases, as Lessor

The Company also leases most investment properties under operating leases. These leases have varying terms, escalation clauses, renewal options and bases on which contingent rent is receivable.

Rental income for the year ended May 2, 2015 was $29.7 million (2014 – $34.3 million) and was recognized as other income in the consolidated statements of earnings. In addition, the Company recognized $1.7 million of contingent rent for the year ended May 2, 2015 (2014 – $0.9 million).

Other

At May 2, 2015, the Company was contingently liable for letters of credit issued in the aggregate amount of $69.8 million (2014 – $94.6 million).

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys guaranteed to the landlord the performance, by SERCA Foodservice Inc., of all of its obligations under the lease. The remaining term of the lease is five years with an aggregate obligation of $16.5 million (2014 – $19.5 million). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Free Cash Flow

Free cash flow is used to measure the change in the Company's cash available for debt repayment, dividend payments and other investing and financing activities. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 13 and 52 weeks ended May 2, 2015 and the 13 and 52 weeks ended May 3, 2014.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 2, 2015**	May 3, 2014	**May 2, 2015**	May 3, 2014[1]
Cash flows from operating activities	**$ 257.7**	$ 438.7	**$ 1,160.5**	$ 785.3
Add: proceeds on disposal of property, equipment and investment property[2]	**460.9**	354.2	**781.2**	653.1
Less: property, equipment and investment property purchases	**(133.8)**	(166.8)	**(497.2)**	(563.1)
Free cash flow	**$ 584.8**	$ 626.1	**$ 1,444.5**	$ 875.3

(1) 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 this MD&A.

(2) 52 weeks ended May 3, 2014 excluded $991.3 million related to the sale-leaseback of acquired real estate with Crombie REIT, which was simultaneously used to partially fund the Canada Safeway acquisition.

Free cash flow for the fourth quarter of fiscal 2015 was $584.8 million compared to $626.1 million in the fourth quarter of fiscal 2014. This decrease in free cash flow was the result of a decrease in cash flows from operating activities, offset by an increase in proceeds on disposal of property, equipment and investment property associated with the sales noted in the divestiture of manufacturing facilities paragraphs in the "Significant Items" section of this MD&A.

For the 52 weeks ended May 2, 2015, free cash flow was $1,444.5 million compared to $875.3 million in the same period last year. This increase in free cash flow was attributed to the increase in cash flow from operating activities combined with an increase in proceeds on disposal of property, equipment and investment property associated with:

(1) The sale of ten properties to Crombie REIT;

(2) The sale of 22 properties to Econo-Malls; and

(3) The divestiture of manufacturing facilities.

CONSOLIDATED FINANCIAL CONDITION

Capital Structure

The Company's share capital was comprised of the following on May 2, 2015:

	Authorized Number of Shares	Issued and Outstanding Number of Shares		$ in Millions
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	-	$	-
Non-Voting Class A shares, without par value	257,044,056	59,620,737		2,102.1
Class B common shares, without par value, voting	40,800,000	32,712,693		7.3
			$	2,109.4

Key Financial Condition Measures

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

($ in millions, except per share and ratio calculations)		**May 2, 2015**		May 3, 2014[(1)]		May 4, 2013[(2)]
Shareholders' equity, net of non-controlling interest	**$**	**5,983.8**	$	5,700.5	$	3,724.8
Book value per common share[(3)]	**$**	**64.81**	$	61.75	$	54.82
Long-term debt, including current portion	**$**	**2,295.9**	$	3,500.1	$	969.5
Funded debt to total capital[(3)]		**27.7%**		38.0%		20.7%
Net funded debt to net total capital[(3)]		**25.1%**		35.0%		12.1%
Funded debt to EBITDA[(3)]		**1.9x**		4.6x		1.1x
EBITDA to interest expense[(3)]		**8.9x**		5.8x		19.0x
Current assets to current liabilities		**0.9x**		1.0x		1.0x
Total assets	**$**	**11,473.4**	$	12,243.7	$	7,140.4

(1) 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 this MD&A.
(2) Amounts have been restated as a result of a change in accounting policy and reclassification of discontinued operations.
(3) See "Non-GAAP Financial Measures" section of this MD&A.

The ratio of funded debt to total capital decreased 10.3 percentage points to 27.7 percent at May 2, 2015 from 38.0 percent at May 3, 2014. This reduction largely reflects a decline in long-term debt as a result of $1,635.5 million (2014 – $798.6 million) in debt repayments in the 52 weeks ended May 2, 2015; a decrease in the issuance of long-term debt of $2,923.2 million from the same period last year; and an increase in retained earnings for the year.

The funded debt to EBITDA ratio declined to 1.9 times compared to 4.6 times at May 3, 2014 as a result of the decrease in long-term debt as noted in the paragraph above and increased earnings for the year. An increase in the EBITDA to interest expense coverage ratio (8.9 times versus 5.8 times at May 3, 2014) was the result of higher interest expense in fiscal 2015 ($137.3 million versus $129.5 million at May 3, 2014), and a higher EBITDA ($1,226.1 million versus $755.3 million at May 3, 2014).

The Company's ratio of current assets to current liabilities was 0.9 times at May 2, 2015 compared to 1.0 times at May 3, 2014.

On November 4, 2013, the Company extended the term of its credit facilities to a maturity date of November 4, 2017. On June 6, 2014, an amendment was made to the credit facility to reduce the amount available from $450.0 million to $250.0 million.

On August 8, 2013, in connection with the Canada Safeway acquisition, Sobeys completed a private placement of $500.0 million aggregate principal amount of 3.52 percent Notes, Series 2013-1 due August 8, 2018 (the "Series 2013-1 Notes") and $500.0 million aggregate principal amount of 4.70 percent Notes, Series 2013-2 due August 8, 2023 (the "Series 2013-2 Notes" and together with the Series 2013-1 Notes, the "Notes"). The aggregate net proceeds were approximately $987.1 million after deducting underwriting fees and the purchase discount on the 2013-1 Notes. Upon closing of the Canada Safeway acquisition, the net proceeds of $987.1 million were released from escrow and used to partially finance the acquisition.

Pursuant to an agreement dated October 30, 2013, Sobeys established new credit facilities in connection with the Canada Safeway acquisition. The agreement provides for a non-revolving, amortizing term credit facility (the "Acquisition Facility") in the amount of $1,825.0 million; a non-revolving, non-amortizing term bridge facility (the "Bridge Facility") in the amount of $1,327.9 million; and a revolving term credit facility (the "RT Facility") in the amount of $450.0 million.

On November 4, 2013, the RT Facility replaced Sobeys' previous unsecured revolving term credit facility of $450.0 million, the Acquisition Facility was fully drawn for $1,825.0 million and the Bridge Facility was drawn for $200.0 million in order to partially finance the Canada Safeway acquisition. As of May 2, 2015, the outstanding amount of the Acquisition Facility was $200.0 million, the Bridge Facility was fully repaid and matured, and the Company had issued $57.3 million in letters of credit against the RT facility (May 3, 2014 – $79.0 million). Interest payable on the Acquisition and RT Facilities fluctuates with changes in the bankers' acceptance rate or Canadian prime rate, and both facilities mature on November 4, 2017.

On July 14, 2014, Sobeys completed a private placement of $300.0 million aggregate principal amount of floating rate senior unsecured notes, due July 14, 2016. The senior unsecured notes will bear an interest rate equal to the three-month bankers' acceptance rate plus 63 basis points, to be set quarterly. The net proceeds were used to repay outstanding debt on the Acquisition Facility. Deferred financing fees in the amount of $0.9 million were incurred on the draw down of the senior unsecured notes and have been offset against long-term debt amounts for presentation purposes.

Sobeys current credit ratings are BBB (low) with a stable trend from Dominion Bond Rating Service ("DBRS") and BBB- with a negative trend 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 52 weeks ended May 2, 2015.

For additional disclosure on Empire's long-term debt, see Note 15 to the Company's audited annual consolidated financial statements for the 52 weeks ended May 2, 2015.

Shareholders' Equity

The increase in shareholders' equity, net of non-controlling interest, of $283.3 million from fiscal 2014 primarily reflects the increase in retained earnings. Book value per common share was $64.81 at May 2, 2015 compared to $61.75 at May 3, 2014.

The Company's share capital on May 2, 2015 compared to the same period in the last fiscal year is shown in the table below.

	52 Weeks Ended	
(Number of Shares)	**May 2, 2015**	May 3, 2014
Non-Voting Class A shares		
Issued and outstanding, beginning of year	**58,049,484**	33,687,747
Issued during period	**23,183**	24,361,737
Converted from Class B common shares during period	**1,548,070**	-
Issued and outstanding, end of year	**59,620,737**	58,049,484
Class B common shares		
Issued and outstanding, beginning of year	**34,260,763**	34,260,763
Issued during period	**-**	-
Converted to Non-Voting Class A shares during period	**(1,548,070)**	-
Total Issued and outstanding, end of year	**32,712,693**	34,260,763

On June 11, 2014, 77,039 options were exercised resulting in the issuance of an additional 19,225 Non-Voting Class A shares being issued.

On September 30, 2014 and April 13, 2015, 2,679 and 1,279 additional Non-Voting Class A shares were issued as a result of options exercised.

During the year ended May 2, 2015, 1,548,070 Class B common shares were converted into 1,548,070 Non-Voting Class A shares.

The outstanding options at May 2, 2015 were granted at prices between $51.99 and $92.60 and expire between July 2018 and March 2023. Stock option transactions during fiscal 2015 and 2014 were as follows:

	2015			2014		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	**934,366**	**$**	**74.56**	684,128	$	47.06
Granted	**325,989**		**67.28**	826,799		78.89
Purchased	**-**		**-**	(291,980)		46.89
Exercised	**(87,574)**		**51.11**	(240,940)		44.16
Forfeited	**(51,116)**		**67.76**	(43,641)		78.46
Balance, end of year	**1,121,665**	**$**	**74.58**	934,366	$	74.56
Stock options exercisable, end of year	**231,577**			101,289		

The 1,121,665 stock options outstanding as at the fiscal year ended May 2, 2015 (May 3, 3014 – 934,366) represents 1.2 percent (May 3, 2014 – 1.0 percent) of the outstanding Non-Voting Class A and Class B common shares.

During fiscal 2015, the Company paid common dividends of $99.7 million (2014 - $83.3 million) to its equity holders. This represents a payment of $1.08 per share (2014 - $1.04 per share) for common share holders.

In connection with the Canada Safeway acquisition in November 2013, the Company issued 24,265,000 Non-Voting Class A shares, resulting in additions to capital stock of $1,842.6 million before transaction costs. Transaction costs of $55.8 million, net of deferred taxes of $20.1 million, were offset against the proceeds as they directly related to the issuance of the common shares

As at June 24, 2015, the Company had Non-Voting Class A and Class B common shares outstanding of 59,620,737 and 32,712,693, respectively, as well as 1,115,926 options to acquire in aggregate 1,115,926 Non-Voting Class A shares.

Normal Course Issuer Bid ("NCIB")

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

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

Financial Instruments

As part of Sobeys' 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 52 weeks ended May 2, 2015 or for the comparative periods in fiscal 2014.

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.

On January 30, 2015, the Company unwound a floating-for-floating currency swap that originated in July 2008 at a gain of $0.7 million and entered into a new 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. The terms of the swap match the terms of the variable rate loan. As of May 2, 2015, the Company recognized a liability of $1.2 million relating to this instrument. The Company estimates that a 10.0 percent increase (decrease) in applicable foreign currency exchange rates would impact fair value of the instrument by $2.0 million ($2.0 million). An increase (decrease) of 10.0 percent would impact other comprehensive income by $1.4 million ($1.4 million).

During the first quarter of fiscal 2015, the Company entered into an amortizing interest rate swap for an original notional amount of $598.7 million at a fixed interest rate of 1.4 percent effective May 12, 2014 to hedge the interest rate on a portion of the Company's Acquisition Facility. The notional amount outstanding at the end of fiscal 2015 is $174.7 million. The interest rate swap matures on December 31, 2015. As of May 2, 2015, the Company recognized a liability of $0.3 million relating to this instrument. The Company estimates that an increase (decrease) of 25 basis points in applicable forward interest rates would impact fair value of the instrument by $0.2 million ($0.2 million). An increase (decrease) of 25 basis points would impact other comprehensive income by $0.1 million ($0.1 million).

To mitigate the currency risk associated with some of the Company's Euro purchases, Sobeys enters into forward currency contracts with staggered maturities to hedge against the effect of the changes in the value of the CAD relative to the Euro. As of May 2, 2015, the Company recognized a liability of $4.0 million representing the fair value of Euro denominated forward currency contracts. The Company estimates that a 10.0 percent increase (decrease) in applicable exchange rates would impact fair value by $3.7 million ($3.7 million). An increase (decrease) of 10.0 percent would impact other comprehensive income by $2.7 million ($2.7 million).

To mitigate the currency risk associated with some of the Company's British Pound ("GBP") purchases, Sobeys enters into forward currency contracts with staggered maturities to hedge against the effect of the changes in the value of the CAD relative to the GBP. As of May 2, 2015, the Company recognized an asset of $0.1 million representing the fair value of GBP denominated forward currency contracts. The Company estimates that a 10.0 percent increase (decrease) in applicable exchange rates would impact fair value by $0.2 million ($0.2 million). An increase (decrease) of 10.0 percent would impact other comprehensive income by $0.1 million ($0.1 million).

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 at May 2, 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.

BUSINESS ACQUISITION

Canada Safeway Acquisition

During fiscal 2015, management finalized the purchase price allocation related to the Canada Safeway acquisition. As a result, the consolidated balance sheet as at May 3, 2014 was adjusted and includes the following fair value of the identifiable assets acquired and liabilities assumed:

($ in millions)		
Inventories	$	**451.0**
Property, equipment and investment property		**1,139.8**
Assets held for sale		**391.4**
Assets acquired for sale-leaseback		**991.3**
Intangibles		**487.6**
Deferred tax assets		**35.5**
Accounts payable and accrued liabilities		**(398.7)**
Pension obligations		**(137.5)**
Deferred tax liabilities		**(13.2)**
Other assets and liabilities		**38.1**
Total identifiable net assets	$	**2,985.3**
Excess consideration paid over identifiable net assets acquired allocated to goodwill	$	**2,814.7**

Goodwill of $2,814.7 million was recognized as the excess of the acquisition cost over the fair value of the identifiable net assets at the date of the acquisition. The goodwill recognized is attributable mainly to the expected synergies from integration, the expected future growth potential in grocery store operations and the customer base of the acquired retail store locations. Approximately $2,102.2 million of goodwill is expected to be deductible for income tax purposes.

ACCOUNTING STANDARDS AND POLICIES

Accounting Standards and Policies Adopted During Fiscal 2015

(i) Financial Instruments: Asset and Liability Offsetting

In December 2011, the International Accounting Standards Board ("IASB") amended International Accounting Standards ("IAS") 32, "Financial Instruments: Presentation", to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The amendments became effective in the first quarter of 2015 and had no significant impact on the Company's financial results and disclosures.

(ii) *Levies*

In May 2013, the IASB issued IFRIC 21, "Levies", which is an interpretation of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, "Income Taxes", and fines or other penalties imposed for breaches of legislation. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation became effective in the first quarter of 2015 and it had no significant impact on the Company's financial results.

(iii) *Impairment of Assets*

In May 2013, the IASB amended IAS 36, "Impairment of Assets", to clarify the disclosure requirements for recoverable amounts for the assets or cash generating units ("CGU") for which an impairment loss has been recognized or reversed during the period. The amendments became effective in the first quarter of 2015 and had no significant impact on the Company's financial results and disclosures.

Future Accounting Policies

(i) *Financial Instruments*

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

(ii) *Revenue*

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

(iii) *Presentation of Financial Statements*

In December 2014, the IASB amended IAS 1, "Presentation of Financial Statements", providing guidance on the application of judgment in the preparation of financial statements and disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted, but the Company does not intend to do so at this time.

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

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation, provisions, impairments, customer loyalty programs, useful lives of property, equipment, investment property and intangibles for purposes of depreciation and amortization, and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Management regularly evaluates the estimates and assumptions it uses. Actual results could differ from these estimates.

Impairment of Non-Financial Assets

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each CGU or groups of CGU to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the CGU is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expense. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU(s) to which the asset belongs. The Company has primarily determined a CGU to be an individual store. Corporate assets, such as head offices and distribution centres, do not individually generate separate cash inflows and are therefore aggregated for testing with the stores they service. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expense immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or CGU) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior periods. A reversal of impairment loss is recognized immediately in net earnings or loss.

In determining the recoverable amount of a CGU, various estimates are employed. Management makes assumptions about future growth of profits when measuring expected future cash flows. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company’s assets within subsequent financial years. The key assumptions are disclosed in notes 9 and 12 of the Company’s financial statements.

Pension Benefit Plans and Other Benefit Plans

The cost of the Company's pension benefits for defined contribution plans are expensed at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected unit credit method pro-rated on service and management's best estimate of salary escalation, retirement ages, and expected growth rate of health care costs.

Current market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation.

To the extent that plan amendments increase the obligation related to past service, the Company will recognize a past service cost immediately as an expense.

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income. The key assumptions are disclosed in note 17 of the Company's financial statements.

Income Taxes

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment. The financial statement carrying values of assets and liabilities are subject to accounting estimates inherent in those balances. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The current and deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

Changes or differences in these estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated balance sheets.

Valuation of Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) inventories counted at retail and adjusted to cost; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) estimated inventory provisions associated with vendor allowances and internal charges. Changes or differences in any of these estimates may result in changes to inventories on the consolidated balance sheets and a charge or credit to operating income in the consolidated statements of earnings.

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material.

Business Acquisitions

For business acquisitions, the Company applies judgment on the recognition and measurement of assets and liabilities assumed and estimates are utilized to calculate and measure such adjustments. In measuring the fair value of an acquiree's assets and liabilities management uses estimates about future cash flows and discount rates. Any measurement changes upon initial recognition would affect the measurement of goodwill, except for deferred taxes.

Disclosure Controls and Procedures

Management of the Company, which includes the Chief Executive Officer ("CEO") and Chief Financial & Administrative Officer ("CFAO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As at May 2, 2015, the CEO and CFAO have evaluated the effectiveness of the Company's DC&P. Based on that evaluation, the CEO and CFAO have concluded that the Company's DC&P was effective as at May 2, 2015 and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control over Financial Reporting

Management of the Company, which includes the CEO and CFAO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "The Internal Control Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission. As at May 2, 2015, the CEO and CFAO have evaluated the effectiveness of the Company's ICFR. Based on that evaluation, the CEO and CFAO have concluded that the Company's ICFR was effective as at May 2, 2015 and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in the Company's ICFR during the period beginning February 1, 2015 and ended May 2, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

RELATED PARTY TRANSACTIONS

The Company has related party transactions with Crombie REIT and key management personnel. The Company holds a 41.5 percent ownership interest in Crombie REIT and accounts for its investment using the equity method.

On May 30, 2014, Crombie REIT closed a bought-deal public offering of units at a price of $13.25 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased approximately $40.0 million of Class B LP units (which are convertible on a one-for-one basis into units of Crombie REIT). Following the conversion of Crombie REIT debentures during the current fiscal year, and accounting for the subscription of Class B LP units, the Company's interest in Crombie REIT decreased from 41.6 to 41.5 percent.

During the second quarter of fiscal 2015, the Company exited a sub-lease agreement with Crombie REIT and incurred a charge of $2.7 million. This charge is included in selling and administrative expenses on the consolidated statements of earnings.

During the year ended May 2, 2015, Sobeys through its wholly owned subsidiaries sold ten properties and leased back eight properties from Crombie REIT. Cash consideration received for the properties sold was $105.8 million, resulting in a pre-tax gain of $1.2 million, which has been recognized in the consolidated statements of earnings. The majority of proceeds received were used to repay bank borrowings.

The Company rents premises from Crombie REIT, at amounts in management's opinion which approximate fair market value. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third parties in each market it operates. During fiscal year 2015, the aggregate net payments under these leases, which are measured at exchange amounts, were $149.0 million (2014 – $110.5 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis.

At May 2, 2015, investments included $25.1 million (2014 – $24.6 million) of Crombie REIT convertible unsecured subordinated debentures. The Company received interest from Crombie REIT of $1.2 million for the year ended May 2, 2015 (2014 – $1.2 million). These amounts are included in other income in the consolidated statements of earnings.

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

On closing of the acquisition of the 70 properties, the Company subscribed for $150.0 million of Class B units (which are convertible on a one-for-one basis into units of Crombie REIT).

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

During fiscal 2014, Sobeys entered into a loan agreement with Crombie REIT to partially finance Sobeys' acquisition of a property in British Columbia. The $11.9 million loan bears interest at a rate of 6.0 percent and has no principal repayments until maturity on October 1, 2016. The Company also sold and leased back a property from Crombie REIT for cash consideration of $10.2 million which was equal to its carrying value. In addition, the Company exchanged properties with Crombie REIT during fiscal 2014. The properties exchanged were both located in Canmore, Alberta.

Key Management Personnel Compensation

Key management personnel include the Board of Directors and members of the Company's executive team that have authority and responsibility for planning, directing and controlling the activities of the Company.

Key management personnel compensation is comprised of:

($ in millions)	**May 2, 2015**	May 3, 2014
Salary, bonus and other short-term employee benefits	**$ 17.9**	$ 12.0
Post-employment benefits	**1.3**	3.8
Termination benefits	**-**	7.2
Share-based payments	**14.3**	10.7
	$ 33.5	$ 33.7

Indemnities

The Company has agreed to indemnify its directors, officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

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

Through its operating companies and its equity-accounted investments, Empire is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company has adopted an annual enterprise risk management assessment which is overseen by the Company's Executive Committee and reported to the Board of Directors and Committees of the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across the Company.

Competition

Empire's food retailing business, Sobeys, operates in a dynamic and competitive market. Other national and regional food distribution companies, along with non-traditional competitors, such as mass merchandisers and warehouse clubs, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 900 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. A failure to maintain geographic diversification to reduce the impacts of localized competition could have an adverse impact on Sobeys' operating margins and results of operations. To successfully compete, Sobeys believes it must be customer and market-driven and to be focused on superior execution and to have efficient, cost-effective operations. It also believes it must invest in its existing store network, as well as its merchandising, marketing and operational execution to evolve its strategic platform to better meet the needs of consumers looking for more affordable, better food options. The Company further believes it must invest in merchandising initiatives to better forecast and respond to changing consumer trends. Any failure to successfully execute in these areas could have a material adverse impact on Sobeys' financial results.

Empire's real estate operations, through its investment in Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect their ability to: (i) acquire property in compliance with their investment criteria; (ii) lease space in their properties; and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect the Company's financial results and cash flows. A failure by Crombie REIT to maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties or to maintain strategic relationships with existing and potential tenants to help achieve high occupancy levels at each of its properties could adversely affect the Company.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar holds land for future development, it faces significant competition when looking to acquire new land for future development. To mitigate this risk, Genstar maintains a geographically diverse inventory of well located land for development to alleviate periods of intense competition for the acquisition of new land. In addition, Genstar management has intimate knowledge of the residential markets where Genstar operates and in markets where it seeks new land investments.

Food Safety and Security

Sobeys is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, food safety and product handling. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to Sobeys' private label products, in relation to the production, packaging and design of products.

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect Sobeys' financial performance. Procedures are in place to manage food crises, should they occur. These procedures are intended to identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs which address safe food handling and preparation standards. However, there can be no assurance that such measures will prevent the occurrence of any such contamination, and insurance may not be sufficient to cover any resulting financial liability or reputational harm.

Human Resources

The Company is exposed to the risk of labour disruption in its operations and, with the Canada Safeway acquisition, this level of risk has increased appreciably given that Safeway operations are almost entirely unionized. The Company has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2016. The Company has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long-term. Any prolonged work stoppages or other labour disputes could have an adverse impact on the Company's financial results.

Effective leadership is very important to the growth and continued success of the Company. The Company develops and delivers training programs at all levels across its various operating regions in order to improve employee knowledge and to better serve its customers. The ability of the Company to properly develop, train and retain its employees with the appropriate skill set could affect the Company's future performance.

There is always a risk associated with the loss of key personnel. Succession plans have been identified for key roles including the depth of management talent throughout the Company and its subsidiaries which are reviewed annually by the Human Resources Committee.

Operations

The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchisees and affiliates operate approximately 49 percent of Sobeys' retail stores. Sobeys relies on the franchisees and affiliates and corporate store management to successfully execute retail strategies and programs.

To maintain controls over Sobeys' brands and the quality and range of products and services offered at its stores, franchisees and affiliates agrees to purchase merchandise from Sobeys. In addition, stores agree to comply with the policies, marketing plans and operating standards prescribed by Sobeys. These obligations are specified under franchise and operating agreements which expire at various times for individual franchisees and affiliates. Despite these franchise and operating agreements, Sobeys may have limited ability to control a franchisees' and affiliates' business operations. A breach of these franchise and operating agreements or operational failures by a significant number of franchisees and affiliates may adversely affect Sobeys' reputation and financial performance.

Technology

Sobeys operates an extensive complex information technology system that is vital to the successful operation of its business and marketing strategies. Any interruption to these systems or the information collected by them would have a significant adverse impact on the Company, its operations and its financial results.

The Company and each of its operating companies are committed to improving their operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk of realization of benefits, that must be mitigated by disciplined change management and governance processes. Sobeys has a business process optimization team staffed with knowledgeable internal and external resources that is responsible for implementing the various initiatives.

Information Management

The integrity, reliability and security of information in all its forms is critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches and/or inappropriate disclosure or leaks of sensitive information. In addition, gathering and analyzing information regarding customers' purchasing preferences is an important part of the Company's strategy to attract and retain customers and effectively compete.

Information management is identified as a risk in its own right, separate from the technology risk. The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is being managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management. Any failure to maintain privacy of customer information or to comply with applicable privacy laws or regulations could adversely affect the Company's reputation, competitive position and results or operations.

Supply Chain

The Company is exposed to potential supply chain disruptions and errors that could result in obsolete merchandise or an excess/shortage of merchandise in its retail store network. A failure to implement and maintain effective supplier selection and procurement practices could adversely affect Sobeys' ability to deliver desired products to customers and adversely affect the Company's ability to attract and retain customers. A failure to maintain an efficient supply and logistics chain may adversely affect Sobeys' ability to sustain and meet growth objectives and maintain margins.

Product Costs

Sobeys is a significant purchaser of food product which is at risk of cost inflation given rising commodity prices and other costs of production to food manufacturers. Should rising cost of product materialize in excess of expectations and should Sobeys not be able to offset such cost inflation through higher retail prices and/or other cost savings, there could be a negative impact on sales and margin performance.

Economic Environment

Management continues to closely monitor economic conditions, including foreign exchange rates, interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

Liquidity Risk

The Company's business is dependent in part on having access to sufficient capital and financial resources to fund its growth activities and investment in operations. Any failure to maintain adequate financial resources could impair the Company's growth or ability to satisfy financial obligations as they come due. The Company actively maintains committed credit facilities to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements. The Company monitors capital markets and the related economic conditions and maintains access to debt capital markets for longer-term debt issuances as deemed prudent in order to minimize risk and optimize pricing. However, there can be no assurance that adequate capital resources will be available in the future on acceptable terms or at all.

Interest Rate Fluctuation

The Company's long-term debt objective is to maintain the majority of its debt at fixed interest rates or hedged with interest rate swaps. Any increase in the applicable interest rates could increase expense and have a material adverse effect on the Company's cash flow and results of operations. The Company has historically managed interest rate risk by hedging with interest rate swaps. There can be no assurance that any hedging or other risk management strategy, if any, undertaken by the Company will be effective.

Business Continuity

The Company may be subject to unexpected events and natural hazards, including severe weather events, interruption of utilities and infrastructure or occurrence of pandemics, which could cause sudden or complete cessation of its day-to-day operations. The Company has worked with industry and government sources to develop preparedness plans. However, no such plan can eliminate the risks associated with events of this magnitude. Any failure to respond effectively or appropriately to such events could adversely affect the Company's operations, reputation and financial results.

Insurance

The Company and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and also purchase excess insurance coverage from financially stable third party insurance companies. In addition to maintaining comprehensive loss prevention programs, the Company maintains management programs to mitigate the financial impact of operational risks. Such programs may not be effective to limit the Company's exposure to these risks, and to the extent that the Company is self-insured or liability exceeds applicable insurance limits, the Company's financial position could be adversely affected.

Ethical Business Conduct

Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could therefore negatively impact the Company's financial performance. The Company's framework for managing ethical business conduct includes the adoption of a Code of Business Conduct and Ethics which directors and employees of the Company are required to acknowledge and agree to on a regular basis. As well, as part of an independent audit and security function the Company maintains a whistle-blowing hotline. There can be no assurance that these measures will be effective to prevent violations of law or ethical business practices.

Environmental, Health and Safety

The Company operates its business locations across the country, including numerous fuel stations. Each of these sites has the potential to experience environmental contamination or other issues as a result of the Company's operations or the activities of third parties, including neighbouring properties.

When environmental issues are identified, any required environmental site remediation is completed using appropriate, qualified internal and external resources. The Company may be required to absorb all costs associated with such remediation, which may be substantial.

Sobeys' retail fuel locations operate underground storage tanks. Environmental contamination resulting from leaks or damages to these tanks is possible. To mitigate this environmental risk, Sobeys engages in several monitoring procedures, as well as risk assessment activities, to minimize potential environmental hazards.

These activities mitigate but do not eliminate the Company's environmental risk, and as such, along with the risk of changes to existing environmental protection regulatory requirements, there remains exposure for negative financial and operational impacts to the Company in future years.

Occupational Health and Safety

The Company has developed programs to promote a healthy and safe workplace, as well as progressive employment policies focused on the well-being of the thousands of employees who work in its stores, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board of Directors.

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail stores, as well as for its commercial property and residential development operations, with direct or indirect Company ownership being an important, but not overriding, consideration. The Company develops certain retail store locations on owned sites; however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and/or the ability to expand existing stores is therefore in large part contingent upon the successful negotiation of operating leases with these developers and the Company's ability to purchase high potential sites.

Legal, Taxation and Accounting

Changes to any of the various federal and provincial laws, rules and regulations related to the Company's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to the Company. Failure to fully comply with various laws and rules and regulations may expose the Company to proceedings which may materially affect its performance.

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company. The Company mitigates the risk of not being in compliance with the various laws and rules and regulations by monitoring for newly adopted activities, improving technology systems and controls, improving internal controls to detect and prevent errors and overall, application of more scrutiny to ensure compliance. 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.

Utility and Fuel Prices

The Company is a significant consumer of electricity, other utilities and fuel. These items have been subject to significant volatility. Unanticipated cost increases in these items could negatively affect the Company's financial performance. A failure to maintain effective consumption and procurement programs could adversely affect the Company's financial results. In addition, Sobeys operates a large number of fuel stations. Significant increases in wholesale prices or availability could adversely affect operations and financial results of the fuel retailing business.

Credit Rating

There can be no assurance that the credit rating assigned to Sobeys or the Notes will remain in effect for any given period of time or that the rating will not be lowered, withdrawn or revised by DBRS or S&P at any time. Real or anticipated changes in credit rating can affect the cost at which Sobeys can access the capital markets. The likelihood that Sobeys' creditors will receive payments owing to them will depend on the Sobeys' financial health and creditworthiness. Credit ratings assigned by a ratings agency provide an opinion of that ratings agency on the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Receipt of a credit rating provides no guarantee of Sobeys' future creditworthiness.

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro and the USD. USD purchases of products represent approximately 5.0 percent of Sobeys' total annual purchases with Euro purchases limited to specific contracts for capital expenditures. A failure to adequately manage the risk of exchange rate changes could adversely affect the Company's financial results.

Capital Allocation

It is important that capital allocation decisions result in an appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including the Board of Directors' review of significant capital allocation decisions.

Seasonality

The Company's operations as they relate to food, specifically inventory levels, sales volume and product mix, are impacted to some degree by certain holiday periods in the year.

Foreign Operations

The Company has certain foreign operations. The Company's foreign operations are limited to a produce sourcing operation and residential real estate partnerships based in the United States.

Drug Regulation

The Company currently operates 348 in-store pharmacies and 76 freestanding pharmacies that are subject to risks associated with changes to federal and provincial legislation governing the sale of prescription drugs. Legislated changes to generic prescription drug prices and dispensing fees, which vary province by province, continued to impact the Company in fiscal 2015. In addition to provincial plan changes, third parties continue to advocate for changes to generic drug legislation in order to reduce drug plan costs. Changes to legislation affecting generic prescription drug prices, reimbursement rates for generic drugs, manufacturer allowance funding and dispensing fees are expected to continue the downward pressure on prescription drug sales. The Company will continue to identify opportunities to mitigate the negative impact these changes have on financial performance.

Pension Plans

The Company has certain retirement benefit obligations under its registered defined benefit plans. New regulations and market driven changes may result in changes in discount rates and other variables which could result in the Company being required to make contributions that differ from estimates, which could have an adverse affect on the financial performance of the Company.

As a result of the Canada Safeway acquisition, the Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 17 percent of employees of Sobeys and its franchisees and affiliates participate in these plans. Sobeys' responsibility to make contributions to these plans is limited by the amounts established in the collective bargaining agreements, however poor performance of these plans could have a negative effect on Sobeys' employees or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

Leverage Risk

The Company's degree of leverage, particularly since the draw of credit facilities to complete the Canada Safeway acquisition, could have adverse consequences for the Company. These include limiting the Company's ability to obtain additional financing for working capital and activities such as capital expenditures, product development, debt service requirements, and acquisitions. Higher leveraging restricts the Company's flexibility and discretion to operate its business by limiting the Company's ability to declare dividends due to having to dedicate a portion of the Company's cash flows from operations to the payment of interest on its existing indebtedness. Utilizing cash flows for interest payments also limits capital available for other purposes including operations, capital expenditures and future business opportunities. Increased levels of debt exposes the Company to increased interest expense on borrowings at variable rates therefore limiting the Company's ability to adjust to changing market conditions. This could place the Company at a competitive disadvantage compared to its competitors that have less debt, by making the Company vulnerable during downturns in general economic conditions and limiting the Company's ability to make capital expenditures that are important to its growth and strategies.

Integration of the Combined Business

Sobeys' ability to maintain and successfully execute its business depends upon the judgment and project execution skills of its senior management. Any management disruption or difficulties in integrating Sobeys' and Canada Safeway's management and operations staff could significantly affect Sobeys' business and results of operations. The success of the Canada Safeway acquisition will depend, in large part, on the ability of management to realize the anticipated benefits and cost synergies from integration of the businesses of Sobeys and Canada Safeway. The integration of Sobeys and Canada Safeway may result in significant challenges, and management may be unable to accomplish the integration smoothly, or successfully, in a timely manner or without spending significant amounts of money. It is possible that the integration process could result in the loss of key employees, the disruption of the respective ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the ability of management to maintain relationships with clients, suppliers, employees or to achieve the anticipated benefits of the Canada Safeway acquisition.

The integration of Canada Safeway requires the dedication of substantial effort, time and resources on the part of management which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. There can be no assurance that management will be able to integrate the operations of each of the businesses successfully or achieve all of the synergies or other benefits that are anticipated as a result of the Canada Safeway acquisition. The extent to which synergies are realized and the timing of such cannot be assured. Any inability of management to successfully integrate the operations of Sobeys and Canada Safeway could have a material adverse effect on the business, financial condition and results of operations of Sobeys.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 52 weeks ended May 2, 2015, the Company contributed $8.9 million (2014 – $11.9 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.

SUBSEQUENT EVENTS

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

Subsequent to May 2, 2015, Sobeys made a successful bid to purchase a former Target Canada Co. warehouse in Rocky View, Alberta for $50.0 million. The facility will be retro-fitted for automation and when renovations are complete, it will have the capacity to efficiently distribute dry grocery to stores in Alberta, Saskatchewan and part of Manitoba.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

NON-GAAP FINANCIAL MEASURES

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

In addition, management undertakes to adjust certain of these and other measures, including EBITDA and net earnings from continuing operations in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure, by excluding items which are considered not indicative of underlying business operating performance.

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

- Same-store sales are sales from stores in the same location in both reporting periods.

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

- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of cost control and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.

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

- EBITDA margin is EBITDA divided by sales. Management believes that EBITDA margin is an important indicator of overall fixed and variable cost control (excluding depreciation and amortization of intangibles) and can help management, analysts and investors assess the competitive landscape, promotional environment of the industry, and overall management of fixed and variable operating costs. An increasing percentage indicates lower operating costs as a percentage of sales.

The following table reconciles EBITDA to GAAP measures:

($ in millions)	13 Weeks Ended May 2, 2015	13 Weeks Ended May 3, 2014	52 Weeks Ended May 2, 2015	52 Weeks Ended May 3, 2014
Operating income	**$ 116.2**	$ 22.9	**$ 743.6**	$ 328.5
Depreciation(1)	**99.4**	99.4	**397.8**	359.4
Amortization of intangibles(1)	**21.0**	25.1	**84.7**	67.4
EBITDA	**$ 236.6**	$ 147.4	**$ 1,226.1**	$ 755.3

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

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

- Adjusted EBITDA margin is adjusted EBITDA divided by sales.

- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings from continuing operations before finance costs (net of finance income) and income taxes.

- Operating income margin is operating income divided by sales.

- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting total finance income.

The following table reconciles interest expense to GAAP measures.

($ in millions)	13 Weeks Ended May 2, 2015	13 Weeks Ended May 3, 2014	52 Weeks Ended May 2, 2015	52 Weeks Ended May 3, 2014
Finance costs, net	**$ 34.6**	$ 47.6	**$ 156.3**	$ 133.2
Plus: finance income	**0.5**	0.6	**1.4**	10.3
Plus: fair value (losses) gains on forward contracts	**(0.1)**	(0.1)	**0.5**	(0.6)
Less: net pension finance costs	**(2.7)**	(3.4)	**(12.0)**	(10.4)
Less: accretion expense on provisions	**(1.9)**	(1.0)	**(8.9)**	(3.0)
Interest expense	**$ 30.4**	$ 43.7	**$ 137.3**	$ 129.5
Interest expense on financial liabilities measured at amortized cost	**$ 30.2**	$ 43.7	**$ 136.7**	$ 129.5
Losses on cash flow hedges reclassified from other comprehensive income	**0.2**	-	**0.6**	-
Interest expense	**$ 30.4**	$ 43.7	**$ 137.3**	$ 129.5

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

- Adjusted net earnings from continuing operations are net earnings from continuing operations, net of non-controlling interest, excluding items which are considered not indicative of underlying business operating performance. These adjustments include items which are non-recurring or one-time in nature and items that result in a truer economic representation of the underlying business on a comparative basis. Adjusted net earnings from continuing operations is reconciled to net earnings from continuing operations, net of non-controlling interest, in its respective subsection of the "Management's Explanation of Consolidated Operating Results", "Food Retailing" and "Investments and Other Operations" sections of this MD&A.

- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity.

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

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

- Total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest.

- Net total capital is total capital less cash and cash equivalents.

- Funded debt to total capital ratio is funded debt divided by total capital.

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

The following tables reconcile the Company's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at May 2, 2015, May 3, 2014 and May 4, 2013, respectively:

($ in millions)	**May 2, 2015**	May 3, 2014(1)	May 4, 2013(2)
Bank indebtedness	**$ -**	$ -	$ 6.0
Long-term debt due within one year	**53.9**	218.0	47.6
Long-term debt	**2,242.0**	3,282.1	915.9
Funded debt	**2,295.9**	3,500.1	969.5
Less: cash and cash equivalents	**(295.9)**	(429.3)	(455.2)
Net funded debt	**2,000.0**	3,070.8	514.3
Total shareholders' equity, net of non-controlling interest	**5,983.8**	5,700.5	3,724.8
Net total capital	**$ 7,983.8**	$ 8,771.3	$ 4,239.1

($ in millions)	**May 2, 2015**	May 3, 2014	May 4, 2013
Funded debt	**$ 2,295.9**	$ 3,500.1	$ 969.5
Total shareholders' equity, net of non-controlling interest	**5,983.8**	5,700.5	3,724.8
Total capital	**$ 8,279.7**	$ 9,200.6	$ 4,694.3

(1) 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 this MD&A.
(2) Amounts have been restated as a result of a change in accounting policy.

- 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 May 2, 2015, May 3, 2014 and May 4, 2013.

($ in millions, except per share information)		**May 2, 2015**		May 3, 2014		May 4, 2013[1]
Shareholders' equity, net of minority interest	**$**	**5,983.8**	$	5,700.5	$	3,724.8
Shares outstanding (basic)		**92.333**		92.310		67.949
Book value per common share	**$**	**64.81**	$	61.75	$	54.82

(1) Amounts have been restated as a result of a change in accounting policy.

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

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

Dated: June 24, 2015
Stellarton, Nova Scotia, Canada