Our Values

EMPIRE
COMPANY LIMITED

2021 Annual Report

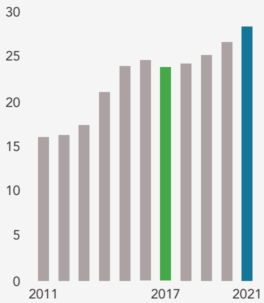
Financial Highlights

Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing and related real estate. With approximately $28.3 billion in annual sales and $15.2 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 134,000 people.

SALES
($ in billions)

5.9%
10-year CAGR[3]

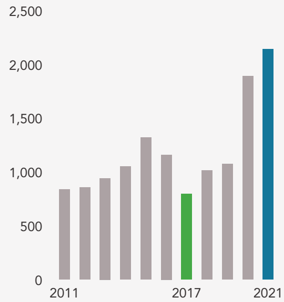
4.4%
4-year CAGR



ADJUSTED EBITDA[1]
($ in millions)

9.9%
10-year CAGR

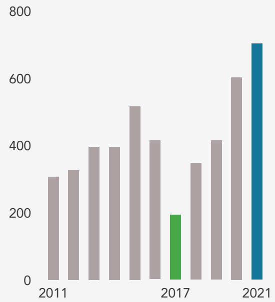
28.1%
4-year CAGR



ADJUSTED NET EARNINGS[1][2]
($ in millions)

8.8%
10-year CAGR

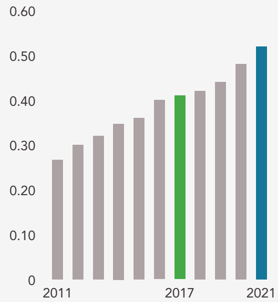
38.4%
4-year CAGR



DIVIDENDS
($ per share)

6.9%
10-year CAGR

6.1%
4-year CAGR



	52 weeks ended		
($ in millions, except per share amounts)	**May 1, 2021**	May 2, 2020	May 4, 2019
Sales	**$ 28,268.3**	$ 26,588.2	$ 25,142.0
Gross profit[1]	**7,199.3**	6,633.3	6,083.6
Gross margin[1]	***25.5%***	*24.9%*	*24.2%*
Operating income	**1,299.5**	1,111.8	652.3
EBITDA[1]	**2,143.8**	1,892.4	1,069.5
EBITDA margin[1]	***7.6%***	*7.1%*	*4.3%*
Net earnings[2]	**701.5**	583.5	387.3
per share (fully diluted)	**2.60**	2.15	1.42
Book value per common share[1]	**16.30**	14.51	14.72
Dividends per share	**0.52**	0.48	0.44

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of the Management's Discussion and Analysis.
(2) Attributable to owners of the Company.
(3) Compound annual growth rate.

On the cover:
Coming through! Produce Manager Jason Driscoll steps aside and looks on as Special Olympics athlete Benjamin Millington visited the Safeway Crowfoot store in Calgary, AB.

Our Values

CANADA'S MOST ADMIRED CORPORATE CULTURES 2020

Almost a year into our Project Horizon strategy, our team is firing on all cylinders, driving toward our ambitious growth targets. We launched our online grocery home delivery service, Voilà. Our discount team reached the halfway mark of our FreshCo expansion in Western Canada. We welcomed Longo's and Grocery Gateway into our family of brands in Ontario. We set an action-oriented Diversity, Equity and Inclusion Strategy. We were recognized by Waterstone Human Capital as one of Canada's Most Admired Corporate Cultures. The list goes on and on. Most importantly, we never lost sight of our values of care, trust and respect to build a stronger, bigger and brighter future for our business.

A Message from the Chair

Empire's fiscal 2021 was a year unlike any other in the modern history of our company and our country, one that will stand for years to come as a testament to the strength and dedication of our people and the communities we serve.

Sadly, it also marked the passing of one of our beloved leaders, Donald R. Sobey, who played a vital role in shaping Empire into the great Canadian business it is today. Donald made tremendous contributions to our country, both as a business leader and a generous philanthropist. As the visionary behind the Sobey Art Award in 2002, Donald created one of the world's most generous privately funded prizes for visual artists that has helped Canadian artists thrive and gain global recognition. He was also passionate about equality in education and played a key role in developing scholarships for universities and colleges in Canada.

134,000

teammates across Canada

No matter how big Empire became, Donald never lost sight of the fundamental Sobey family values that underpin everything we do. He was a one-of-a-kind leader. His passion for making a positive impact and sense of responsibility to society guide our decisions at Empire to this day. We will truly miss him.

Throughout this lengthy and challenging pandemic period, our team distinguished itself as one that not only feeds families, but also shares in their dreams and supports them through life's most difficult times. As COVID-19 presented unprecedented challenges to our business and to the communities we serve, many families across the country have experienced unimaginable loss, mental health issues and financial difficulty.

I am proud that our team's outstanding, sustained response since the start of the pandemic has been nothing short of remarkable. Our people have been there every step of the way to serve our customers in communities across the country with a smile, in a safe environment, despite shouldering their own pandemic-related challenges. From our teammates on the frontline to those in our corporate offices and distribution centres, our people have stood up to help communities and customers get through this terrible pandemic safely. During our fiscal 2021, we saw a powerful example of our values in action.

“ Our commitment to leading with vision and values has positioned us as an outstanding leader in the business community and a significant contributor to the Canadian economy. Empire’s entire team is invested in continuing to make positive changes in our communities and our country.

In addition to the tremendous investments of time, energy and financial resources in the many communities we serve, Empire and Sobeys also continue to strive to make our industry more sustainable and inclusive. Events of the past year, particularly the many challenges presented by COVID-19, have shone a spotlight on the inequities faced by racialized people in Canada and the injustices they face on a daily basis, especially impacts on Black and Indigenous communities. Corporate Canada has much work to do if we hope to make meaningful and sustainable progress on this vital agenda. At Empire, we believe and accept that we have a responsibility to be a leader of change in the areas of diversity, equity and inclusion (DE&I).

As such, we have meaningfully deepened our commitments to eliminating systemic biases and addressing the pressing challenges that many of our teammates and people in the communities we serve face every day. We have partnered with leaders and experts in DE&I to help guide our journey through this space and create tangible benchmarks to chart our progress. Our DE&I initiatives and commitments over the last year position us well for the future, both inside our company and in the broader realm of all Canadians.

This year, we were thrilled to welcome our newest Board member, Michelle Banik. Michelle is a former People and Culture leader at OMERS and is a champion of diversity, equity and inclusion in Canadian business who shares the vision and values we live by at Empire.

As we look to reinforce our growing position of strength and prepare our business for the future, I would like to applaud the Empire Executive Committee for their tremendous leadership this year. Our President and CEO, Michael Medline, has led our company through some of the greatest challenges we have ever faced, while driving our most significant growth in years. His efforts in the last year and beyond have earned him much-deserved recognition from Waterstone Human Capital as one of Canada’s Most Admired CEOs in 2020 in the Transformational Leadership category. The winner in this category is honoured for using the power of corporate culture to drive organizational performance – something Michael has excelled at since he joined Empire in 2017.

40%
gender balance on our Board of Directors

114
years of experience in the retail industry

Michael’s leadership has helped us boldly live our values, strengthen our corporate culture and unite 134,000 teammates across the country to deliver best-in-class service and unprecedented business results. Beyond his recognition as a leader, there is no clearer sign of our values-based achievements this year than our corresponding win as one of Canada’s Most Admired Corporate Cultures.

These achievements speak to our belief that doing good is also good for business. As a company that prides itself on strong environmental, social and governance initiatives (ESG), I am pleased to share that we will release our first-ever ESG report this summer, one that will detail Empire’s progress on this important pillar of our business.

As our 114-year-old company moves into a new era of retail, our commitment to leading with vision and values has positioned us as an outstanding leader in the business community and a significant contributor to the Canadian economy. Empire’s entire team is invested in continuing to make positive changes in our communities and our country.

As a proudly Canadian, family-based company with long-standing roots in Nova Scotia, this way of doing business is what sets us apart. The Empire legacy is stronger than ever, and Canada is better for it.

Sincerely,

signed “James M. Dickson”

James M. Dickson
Chair, Empire Company Limited

July 23, 2021

In Memoriam
(1934–2021)

Remembering Donald R. Sobey, CM

The story of Donald – Beth's husband, our Dad, Papa, brother, uncle, business leader and friend – is a very good story.

Born at the height of the Great Depression and like his brothers Bill and David before him, our father was introduced to the family business at an early age. While most Saturdays he could be found late into the evening bagging potatoes or chopping cabbage in the basement of the family's first store in New Glasgow, Nova Scotia, it was the lure of University and the excitement of moving to a new province that drew him to Queen's University in Kingston, Ontario. It was there that he earned his Commerce degree in 1957, setting in motion a relationship with the Queen's School of Business that would last a lifetime.

In 1958, our father formally joined his father and brothers in the business; first in real estate financing for the rapidly expanding grocery business and then with the fledgling Empire Company Limited which had been set up to diversify business interests. He joined Empire's Board of Directors in 1963, before being appointed President in 1969 and Chairman in 1985. In September 2004, he retired as Chairman and was named Chair Emeritus, continuing to be actively engaged in the business as a member of the Board of Directors until he retired in 2015.

He believed strongly in the transformative power of education. His commitment to post-secondary education saw him take leadership roles in important capital campaigns and in developing meaningful scholarships for numerous universities and colleges in Canada. In 1999, he established the D&R Sobey Atlantic Scholarship at Queen's. Through this single gesture, he has made business education possible for 140 Atlantic Canadian undergraduate students at Queen's University. In 2017, he created the Donald R. Sobey Scholarships at the Nova Scotia Community College, recruiting and sending over 75 students per year from at risk constituencies to the NSCC.

Our father's lifelong passion for the arts was born from a visit in 1949 to Mount Allison University in Sackville, New Brunswick. Walking the halls of Trueman House, he discovered the brilliant murals of Alex Colville, then a young teacher in the University's school of fine arts. It was an experience that stayed with him his entire life and served as the impetus for a life of collecting and arts patronage. He served as a Trustee of the National Gallery of Canada for 14 years, including two consecutive terms as Chair of the Board. In 2002, as Chair of the Sobey Art Foundation, he oversaw the creation of the Sobey Art Award, Canada's preeminent prize for contemporary Canadian art. Throughout his lifetime, meeting and nurturing artistic talent from across Canada was one of his greatest passions.

A devoted husband, father and grandfather, our father set an example for what a life well-lived can look like. His strengths in business, finance, philanthropy and community building were all matched by his generosity, humour, intellectual curiosity and wit. On behalf of our family, I would like to thank everyone from the Empire family for your individual and collective contributions to his life well-lived.

— Rob Sobey

A Life Well-Lived

> “The ability to give back to others is the greatest honour a person can achieve.
>
> — Donald R. Sobey


1


2


3


4

1. Frank H. Sobey with his sons: David Sobey, Donald Sobey and Bill Sobey (left to right).
2. Governor General David Johnston bestows the Order of Canada on Donald R. Sobey (2014).
3. Donald R. Sobey with 2012 Sobey Art Award winner Raphaëlle de Groote and Rob Sobey at the 10th Annual Sobey Art Award.
4. Dr. Arthur MacDonald, 2015 Nobel Laureate in Physics, with Donald R. Sobey and Rob Sobey at the annual D&R Sobey Atlantic Scholars, Queen’s School of Business dinner.
5. David F. Sobey and Donald R. Sobey being inducted into the Canadian Business Hall of Fame (2007).


5

Visionary Philanthropist

Donald R. Sobey was a visionary philanthropist who, throughout his life, committed his time, energy and personal resources to Canadian society through countless endeavours in the fields of health, access to post-secondary education and the visual arts.

He served as Chair of the National Gallery of Canada Foundation Board where he created The Donald and Beth Sobey Chief Curator’s Research Endowment and the founding gift to the Canadian Artists in Venice Endowment. As Chair, his generosity paved the way for a series of important acquisitions to the collection.

As Chair of the Sobey Art Foundation, he created the Sobey Art Award, Canada’s pre-eminent contemporary art award and made numerous investments in the global promotion of contemporary indigenous art from Canada.

He worked hard to advance the cause of post-secondary academic excellence for young Atlantic Canadians by funding scholarships at various colleges and universities. This effort led to the creation of the: D&R Sobey Atlantic Scholarships at the Queen’s School of Business, The Donald R. Sobey Family Scholars at the University of King’s College, The Donald R. Sobey Bursaries at the Nova Scotia Community College and, in conjunction with the World Wildlife Fund, the Donald R. Sobey Fund for Oceans at Dalhousie University, among countless others.

Message from the President & CEO

> “The future belongs to companies that make the world a better place: Those with generous foundational values who give back to the communities they serve. Those who push for industry reforms to make Canada’s grocery retail economy stronger and better. Those who innovate to anticipate the needs of the next generation of customers. And those who can generate outstanding shareholder returns.

In fiscal 2020, Empire transformed into an essential service overnight. And fiscal 2021 proved to be an even more extraordinary test of our team’s endurance, reinforcing yet again just how capable and resilient we are.

You’ve heard me say before that our greatest strength is our people. Our people champion a culture of care, trust and respect for each other, our customers and our partners. Together, we support people in need in the communities we serve. We strive for a more sustainable planet. And we deliver great business outcomes with passion and integrity.

Empire has stood out consistently as a leader in the Canadian grocery retail landscape throughout the pandemic, producing strong results for our shareholders and making a positive difference to families across Canada.

Remembering Donald R. Sobey

We have the late Donald R. Sobey, who passed away in March, to thank for sustaining those values in the company his grandfather founded in Stellarton, Nova Scotia 114 years ago. Every time I spoke with Donald, I listened to him very carefully. The breadth and depth of his knowledge was endlessly inspiring, and his business insights were second to none.

500,000

COVID-19 vaccines administered by our pharmacy teammates in communities across Canada to date

Donald was also a great believer in giving back to the arts and the community. He was a visionary philanthropist, who often charted new waters in the arts and academia. When I last spoke with him in February of 2021, he was deeply supportive of our teammates’ enduring efforts throughout the pandemic to feed Canadians, take care of each other and support their communities from coast to coast.

He inspired and encouraged our values at Empire. And we are better because of him. Donald is sorely missed.

Living our Values in Fiscal 2021

This year, our values-based approach to business was awarded with a “Canada’s Most Admired Corporate Cultures” award – a humbling and deserving win for our team of 134,000 people from coast to coast.

In partnership with the Sobey Foundation, we launched our Child and Youth Mental Health Initiative. This initiative will chart a brighter course for early interventions in child and youth mental health. In its early stages, we are already seeing great outcomes and look forward to sharing them in the years to come.

Our long-standing partnership with Special Olympics Canada continued, and this year we celebrated our Special Olympics athletes like never before in our stores. I was so proud to see eight athletes from across the country featured in our annual campaign – athletes like Benjamin Millington from Calgary, Alberta who is featured on the cover of this year’s Annual Report.

We joined the world in disappointment in the summer of 2020 when the Tokyo Olympic Games were cancelled. As the official Grocer of Team Canada, we stood up to continue supporting Canada’s athletes who struggled under the pressures of the pandemic. As I am writing this, we have our first Olympic campaign in our stores and we couldn’t be prouder to support Team Canada as the Games get underway.

And of course, our stores continued to be champions of their local communities, donating funds, food and essential supplies to causes in need. The pandemic increased the need for support and all of our banner brands stepped up to help.

Last year, around this time, we took an important step on our Diversity, Equity and Inclusion (DE&I) journey as an early signatory of the BlackNorth Initiative CEO Pledge, which encourages Canada's biggest companies to play an active role in removing anti-Black systemic barriers negatively affecting the lives of Black Canadians. This partnership has helped us strengthen our DE&I strategy and remove systemic barriers from our business.

This year, we delivered conscious-inclusion training to more than 600 leaders and 80% of our frontline teammates completed racial-profiling training. We have transformed our external talent searches, making diverse talent a non-negotiable factor at all levels of the organization. These are just a few examples of the concrete actions we are taking.

To further cement our commitment in everything we do, for fiscal 2022, we've tied 10% of performance-based compensation to DE&I goals. Nurturing a diverse, equitable and inclusive work environment is everyone's job and we will hold ourselves accountable to that.

Empire is also a proud leading architect of Canada's first framework for a Grocery Supply Code of Practice in partnership with Food, Health and Consumer Products of Canada (FHCP). We believe in doing business the right way – to strengthen our Canadian food supply chain, keep manufacturing in Canada and foster innovation. I am thrilled the industry has now come together to support a Code of Practice for our sector. Our team will do everything we can to keep the positive momentum moving forward on this important issue.

And I would be remiss if I didn't give a big shoutout to our pharmacy teammates at Empire. They joined the fight against this terrible pandemic, proudly administering more than 500,000 vaccines in communities across Canada to date.

80%
of our frontline teammates completed racial-profiling training

10%
of performance-based compensation will be tied to DE&I goals for fiscal 2022

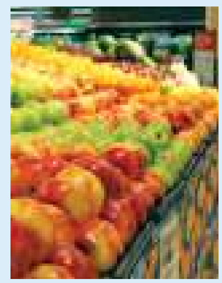
PROJECT HORIZON

Fiscal 2021 Highlights

Project Horizon came to life in fiscal 2021. Here are a few highlights from year one:

Food Rescue Partnership with Second Harvest

Empire's family of brands launched a new partnership with Second Harvest to leverage their Food Rescue app nationally at major banner stores and warehouses to divert surplus food to support local charities.



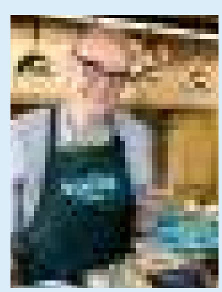
SECOND HARVEST FOOD RESCUE

Grocery Supply Code of Practice

Empire and Food, Health & Consumer Products of Canada, completed an industry-first proposal to industry and government for a "Grocery Supply Code of Practice for Canada."

Voilà and Farm Boy invest in innovation

Voilà by Sobeys, Farm Boy and Oliver & Bonacini Hospitality announced an exclusive deal to bring gourmet O&B dishes to customers in the GTA.



Fiscal 2021 Highlights (continued)

Longo's and Grocery Gateway

Empire announced a new partnership with Longo's, purchasing 51% of Longo's, a long-standing, family-built network of specialty grocery stores in the GTA and the Grocery Gateway e-commerce business.

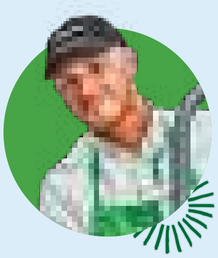
FreshCo grows in the West

Empire reached the half-way mark in Western Canada discount expansion plans with 37 confirmed FreshCo locations.

Child and Youth Mental Health

In partnership with the Sobey Foundation, Empire launched a new philanthropic focus with Canada's Children's Hospital Foundations (CCHF) "A Family of Support" Child and Youth Mental Health Initiative, funding local mental health programs at 13 of Canada's children's hospitals.

Sobeys achieved investment grade credit rating with S&P upgrade



"Sobeys Inc. has expanded its fiscal 2020 EBITDA and EBITDA margin materially as it successfully implemented its multi-year operational turnaround program (Project Sunrise). We expect the company's operations to continue on this trajectory with Project Horizon."

— S&P press release

> "Empire is proud to continue building our values-driven legacy of accountability, results, care, trust and respect on the path towards our bright future.

Company Performance and Strategic Initiatives

Since COVID-19 began, we have invested more than $110 million in additional pay for our teammates throughout the pandemic. This was also the first year of our new three-year strategy, Project Horizon, which targets an incremental $500 million in annualized EBITDA and 100 basis points of EBITDA margin improvement by the end of fiscal 2023. Our earnings growth will come from growing our market share and building upon the cost and margin discipline of Project Sunrise.

With our first year of Project Horizon in the books, I am pleased to report that we are on track to achieve our ambitious growth targets. Not only did our team continue to operate under the pressures of the pandemic, they also rallied around our strategy and hit the ground running.

We are seeing tremendous benefits from expanding and renovating our store network, improving store operations and leveraging advanced data and analytics. Our strategic sourcing efforts are also driving efficiencies and further value. We continue to invest in our world-leading e-commerce strategy and will launch Voilà par IGA in Montreal in fiscal 2022. Currently, we are building our third CFC in Calgary, which will open in fiscal 2023.

In fiscal 2021, we delivered our strongest gross margins as far back as we can look, a result of our many initiatives.

In March, we took another bold step forward in Canada's most competitive grocery market – the Greater Toronto Area in Ontario. We purchased a 51% ownership of Longo's and Grocery Gateway, partnering with another incredible Canadian grocery family. A crown jewel in Toronto-area grocery retail, Longo's shares our family-based values, incredible food assortment and prioritizes giving back to the communities they serve. On behalf of the entire team at Empire, I would like to extend another warm welcome to the Longo's family and team. Longo's President and CEO Anthony Longo will continue to run these stellar brands along with his leadership team. Together, we have great things in store.

Farm Boy also continues to blaze a trail for us in Ontario. To date, we've opened 13 stores since the acquisition. And our rollout of FreshCo in Western Canada, where we are more than halfway through our expansion plan, is an ongoing success.

Our new online grocery home delivery business, Voilà, launched earlier than anticipated as our incredible e-commerce team accelerated timelines due to strong customer demand resulting from the pandemic. Despite the tight timeline and overwhelming demand for our service, the team's execution has been nearly flawless. Voilà has set a new standard for grocery e-commerce in Canada and quickly built an engaged and loyal customer base. Meanwhile, our curbside pickup service expands daily in Western and Atlantic Canada.

Our credit ratings returned to investment grade this year and with our strong cash flow generation, we were able to fully retire two debt facilities, invest $679 million in capital, acquire 51% of Longo's, increase our dividend by 15.3% and buy back $153.6 million of Non-Voting Class A shares.

$679M
invested in capital

15.3%
increase in our dividend

$153.6M
of Non-Voting Class A shares bought back

A Time of Gratitude

We could not have made it through this difficult period of lockdowns and uncertainty without our teammates' continued strength and dedication to serving our customers. Our thanks also go out to our shareholders, business partners and the Sobey family for their enduring support.

Finally, our Board of Directors has been a source of inspiration and guidance through endless virtual meetings and has always been the biggest cheerleader of our values-based approach to doing business. A special thank you to our incredible Chair, Jim Dickson – he is a constant source of support for our team.

The future belongs to companies that make the world a better place: Those with generous foundational values who give back to the communities they serve. Those who push for industry reforms to make Canada's grocery retail economy stronger and better. Those who innovate to anticipate the needs of the next generation of customers. And those who can generate outstanding shareholder returns.

Empire is proud to continue building our values-driven legacy of accountability, results, care, trust and respect on the path towards our bright future.

signed "Michael Medline"

Michael Medline
President & Chief Executive Officer,
Empire Company Limited

July 23, 2021

Sustainability Report At-a-Glance

At Empire, our purpose as a family nurturing families drives us every day. It drives our commitment to People – the customers we serve, the teammates who power our business, the communities we live in and the investors who place their trust in us. It drives our commitment to protect the Planet and reduce our impacts. And it drives our pursuit of sustainable and ethical Products that nourish us all.

We are proud to share our stories and our progress in our Sustainability Business Report at: **www.SobeysSBReport.ca**

Our Sustainable Business Pillars	Fiscal 2021 Highlights

People

Grow and empower a diverse, equitable and inclusive work environment to help our customers and communities stay healthy and strong.

COMMUNITY INVESTMENT

15
unique programs made possible across Canada in support of 13 Children's Hospital Foundations supported by our new A Family of Support: Child and Youth Mental Health initiative

13.3M
meals donated across Canada

140
community organizations supported through the Community Action Fund

DIVERSITY, EQUITY & INCLUSION

7
strategic partnerships are contributing to advancing on our diversity, equity and inclusion strategy and commitments

34%
women representation at the senior management level (senior vice president and vice president)

680+
teammates and leaders participated in our Conscious Inclusion sessions

Planet

Reduce our impacts, take action on climate change and do OurPart™ to protect our planet for future generations.

PLASTICS & PACKAGING

800M
single-use plastic checkout bags removed from circulation from our stores across Canada

CLIMATE ACTION

14,000
trees planted in partnership with One Tree Planted

FOOD WASTE

24%
reduction in the amount of surplus food generated per square foot in our retail stores (since 2016)

Products

Do OurPart™ by delivering sustainable and ethical product choices for our customers.

RESPONSIBLE SOURCING

100%
of the palm oil used in our Own Brands products is certified sustainable palm oil (CSPO)

96%
of our Own Brands fresh and frozen seafood, by weight, is third-party certified sustainable and/or recommended by Ocean Wise

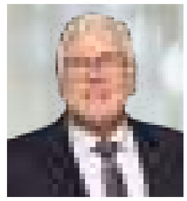
SUPPLIER PARTNERSHIPS

58%
year over year increase in the number of women owners and/or business leads within our network of local supplier partners

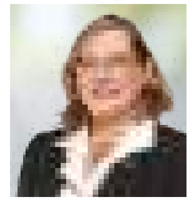
Directors of Empire Company Limited

Michelle Banik[3]
Toronto, Ontario
Director since 2021
Corporate Director

Cynthia Devine[2][5][7]
Toronto, Ontario
Director since 2013
Chief Financial Officer, Maple Leaf Sports & Entertainment



James M. Dickson
Halifax, Nova Scotia
Director since 2015
Chair of Empire Company Limited
Counsel, Stewart McKelvey

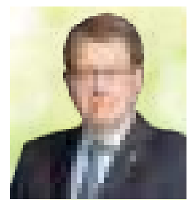


Sharon Driscoll[1]
Vancouver, British Columbia
Director since 2018
Chief Financial Officer, Ritchie Bros. Auctioneers Inc.

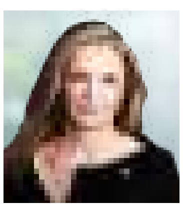
Gregory Josefowicz[3]
Fennville, Michigan, USA
Director since 2016
Corporate Director

Sue Lee[3]
Vancouver, British Columbia
Director since 2014
Corporate Director

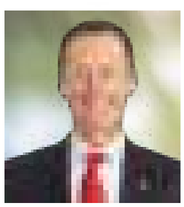
William Linton[4][5][7]
Toronto, Ontario
Director since 2015
Corporate Director



Michael Medline
Toronto, Ontario
Director since 2017
President & Chief Executive Officer, Empire Company Limited and Sobeys Inc.

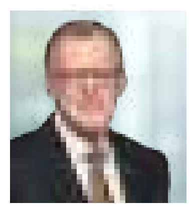


Martine Reardon[1][5][7]
New York, New York, USA
Director since 2017
Chief Marketing Officer & EVP of Content and Membership, National Retail Federation (U.S.)



Frank C. Sobey[5]
Pictou County, Nova Scotia
Director since 2007
Corporate Director

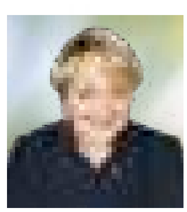
John R. Sobey[1]
Pictou County, Nova Scotia
Director since 1979
Corporate Director



Karl R. Sobey[3]
Halifax, Nova Scotia
Director since 2001
Corporate Director

Paul D. Sobey[5]
Pictou County, Nova Scotia
Director since 1993
Corporate Director

Rob G.C. Sobey[3][5]
Stellarton, Nova Scotia
Director since 1998
Corporate Director



Martine Turcotte[1][6][8]
Verdun, Québec
Director since 2012
Corporate Director

1 Audit Committee member
2 Audit Committee chair
3 Human Resources Committee member
4 Human Resources Committee chair
5 Corporate Governance & Social Responsibility Committee member
6 Corporate Governance & Social Responsibility Committee chair
7 Nominating Committee member
8 Nominating Committee chair

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www.empireco.ca/governance

Management's Discussion and Analysis

For the fourth quarter and fiscal year ended May 1, 2021

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") (TSX: EMP.A) and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the fourth quarter and fiscal year ended May 1, 2021 compared to the fourth quarter and fiscal year ended May 2, 2020. The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended May 1, 2021, and the fiscal year ended May 2, 2020. 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") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD"). These consolidated financial statements include the accounts of Empire and its subsidiaries and structured entities which the Company is required to consolidate. The information contained in this MD&A is current to June 22, 2021, unless otherwise noted.

Forward-Looking Information

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

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

- The Company's expectations regarding the financial impact of Project Horizon and its underlying initiatives, including expected growth in market share, cost and margin savings resulting from this strategy, and the expected timing of the realization of incremental benefits, which could be impacted by several factors, including the time required by the Company to complete the initiatives and impacts of the novel coronavirus ("COVID-19" or "pandemic") including changes in customer behaviour;
- The Company's expectations regarding the financial benefits of Project Horizon along with the continued expansion and renovation of the store network, promotional optimization, data analytics and strategic sourcing efficiencies, which could be impacted by several factors, including the time required by the Company to complete initiatives and impacts of COVID-19 including changes in customer behaviour;
- The FreshCo expansion in Western Canada and Farm Boy expansion in Ontario, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, the projected number of store openings, and the location, feasibility and timing of construction, all of which may be impacted by COVID-19, construction schedules and permits, the economic environment and labour relations;
- The Company's expectations that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program, as the Toronto site is expected to begin to reflect positive results towards the end of the third year of operations, which may be impacted by COVID-19, future operating and capital costs, customer response to the service and the performance of its technology provider, Ocado Group plc ("Ocado");
- The Company's expectations regarding the implementation of its online grocery home delivery service, its plans to expand its Voilà Curbside Pickup service, and the expected dilutive effect on Empire's earnings per share of approximately $0.25 – $0.30 per share in fiscal 2022, which may be impacted by COVID-19, future operating and capital costs, customer response to the service and the performance of its technology provider, Ocado;
- The Company's anticipation that a percentage of food consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores, which may be impacted by the duration of shutdowns due to COVID-19, the ability for restaurants and hospitality businesses to re-open and resume operations, and the ongoing demand for restaurants and hospitality services in the near term;
- The Company's expectation that it will incur approximately $15 million to $20 million in the first quarter in selling and administrative expenses to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19 and safety precautions required;
- The Company's plans to further grow sales and profitability of its private label brands, which may be impacted by future operating and capital costs, and customer response;
- The Company's expectations regarding the timing and amount of expenses relating to the completion of any future Customer Fulfilment Centres ("CFC"), which may be impacted by supply of materials and equipment, construction schedules and capacity of construction contractors;

- The Company's estimates regarding future capital expenditures which includes renovations and new stores, spending on advanced analytics technology and other technology systems, acquisitions of property, equipment and investment properties, and additions to intangibles, which may be impacted by operating results, impacts of the pandemic and the economic environment;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in capital markets;
- The Company's plans to purchase for cancellation Non-Voting Class A shares under its normal course issuer bid ("NCIB"), which may be impacted by market and economic conditions, changes in laws and regulations, and the results of operations; and
- The Company's expectation 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 and long-term obligations, all of which could be impacted by changes in the economic environment.

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

Although the Company believes the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can provide no assurance that such matters will prove correct. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. The forward-looking information in this document reflects the Company's current expectations and is subject to change. The Company does not undertake to update any forward-looking statements that may be made by or on behalf of the Company other than as required by applicable securities laws.

Overview of the Business

Empire's key businesses and financial results are segmented into two reportable segments: (i) Food retailing; and (ii) Investments and other operations. With approximately $28.3 billion in annual sales and $15.2 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 134,000 people.

FOOD RETAILING

Empire's Food retailing segment is carried out through Sobeys, a wholly-owned subsidiary. Proudly Canadian, with headquarters in Stellarton, Nova Scotia, Sobeys has been serving the food shopping needs of Canadians since 1907. Sobeys owns, affiliates or franchises more than 1,500 stores in all 10 provinces under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo, Thrifty Foods, Farm Boy, Longo's and Lawtons Drugs, and operates grocery e-commerce under banners *Voilà by Sobeys*, Grocery Gateway, IGA.net and ThriftyFoods.com, and more than 350 retail fuel locations.

COVID-19

COVID-19 began to impact the Company in February 2020 and has resulted in restrictions by government authorities and the encouragement for Canadians to practice public health measures such as staying at home, social distancing, wearing masks and receiving vaccinations. This has led to increased safety protocols in stores and distribution centres, shifts in consumer demand and consumption, and volatile financial markets. The Company has taken a proactive approach throughout, mobilizing a cross-functional pandemic planning task force with a mandate to monitor and effectively mitigate risks posed to employees, customers and the business.

Management's top priorities remain the health and safety of employees, customers and communities while maintaining a resilient supply chain to meet the needs of Canadians and supporting charitable organizations. The Company continues to invest in increased safety and sanitization products and procedures to ensure customers and employees are protected while shopping and working in stores. Management is closely monitoring the impact of the pandemic on food retail around the world and continues to learn from best practices.

Management anticipates that as lockdowns ease, and consumers shift some spending back to restaurant and hospitality businesses, a percentage of the consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores. The future impact of COVID-19 and government restrictions is uncertain and dependent on the duration and spread of the virus and ultimately, the successful continued rollout of vaccinations across the country. The Company's balance sheet and cash flow remain strong. As of May 1, 2021, the Company had $891 million in cash and cash equivalents, and had access to approximately $694 million in unutilized, aggregate credit facilities that do not expire until fiscal 2023.

The pandemic has impacted how Canadians shop for food. Canadians are shopping less frequently and purchasing larger basket sizes. Many customers are gravitating to one-stop-shop grocery stores that meet all their household needs and to online grocery.

Beginning in the third quarter, certain provincial governments implemented lockdown restrictions. The Company introduced a temporary Lockdown Bonus for frontline employees in stores and distribution centres in the impacted regions. The Lockdown Bonus was introduced in additional geographies as government-mandated lockdowns were put in place. The cost of these bonuses will be dependent on how long the lockdowns last and how many regions are impacted.

During the fourth quarter, the cost of the Lockdown Bonus and maintaining sanitization and safety measures was approximately $24 million, including $9 million for the Lockdown Bonus. The Company's original estimate of up to $4 million for the Lockdown Bonus was based on the information available at the time; however, during the quarter a higher volume of government-mandated lockdowns occurred across the country resulting in actual costs exceeding the estimate. In the first quarter of fiscal 2022 it is expected the Company will incur approximately $15 million to $20 million (first quarter of fiscal 2021 – $67 million) in selling and administrative expenses related to the increased cost of maintaining sanitization and safety measures, the Lockdown Bonus and other COVID-19 related costs.

STRATEGIC FOCUS

In the first quarter of fiscal 2021, the Company launched Project Horizon, a three-year growth plan focused on core business expansion and the acceleration of e-commerce. The Company is targeting an incremental $500 million in annualized EBITDA and an improvement in EBITDA margin of 100 basis points by fiscal 2023 by (i) growing market share and (ii) building on cost and margin discipline.

After the first year, Project Horizon is on track and benefits are in line with management's expectations. In fiscal 2021, Project Horizon benefits were achieved from the expansion and renovation of the Company's store network, improvement in store operations and merchandising from data analytics along with continued efficiencies gained through strategic sourcing initiatives. Benefits were partially offset by the investment in the Company's e-commerce network.

For fiscal 2022, management expects the majority of the benefits to be driven through the annualization of fiscal 2021 initiatives along with the continued expansion and renovation of the store network, promotional optimization, data analytics and strategic sourcing efficiencies. Benefits will be partially offset by the investment in the Company's e-commerce network.

Growth in Market Share

Growth in market share is expected from supporting and investing further in the store network, improving store productivity, scaling up grocery e-commerce, growing the private label portfolio, continuing the Western discount business expansion, increasing the Farm Boy footprint in Ontario and the acquisition of Longo's in Ontario subsequent to year end.

Invest in the Company's Store Network

The Company is accelerating investments in renovations and conversions, store processes, communications, training, technology and tools, enabling store teammates to better serve customers. These continuing re-investments, coupled with refreshed brand marketing strategies and the expansion of the Farm Boy and FreshCo banners, are reflected in the Company's capital spending over the Project Horizon timeframe. See "Capital Expenditures" section of this MD&A for further details.

Improve Store Productivity

The Company began building the foundation of its advanced analytics capabilities a few years ago. Analytics will drive improvements in customer facing elements such as store footprints, customer promotions and availability of product on shelf. The new capabilities enable the Company to further improve the customer experience by leveraging advanced analytics to optimize category and product adjacencies to tailor its assortment for each store format.

Win Canadian Grocery E-Commerce

The Company has accelerated its plans for e-commerce. In December 2020, the Company announced that its third CFC will be located in Calgary and will service the majority of Alberta. The Company also introduced its store pick solution which serves customers in areas where CFCs will not deliver or are not yet built. In September 2020, the Company launched its new curbside pickup service at select Sobeys store locations. At the end of fiscal 2021, 30 locations were providing this service. The Company continues to expand curbside pickup to stores nationally and by the end of fiscal 2022 expects to have up to 120 stores with this service providing an e-commerce option in every province.

Grow the Company's Private Label Portfolio

The Company has improved its private brands' positioning and branding. The Company reviews the specific role of private brands in each category and determines which categories and banners to expand based on consumer needs. Working closely with its supplier partners, the Company plans to further grow sales and profitability of its private label brands through increased distribution, shelf placement and product innovation.

Provide Best-in-Class Customer Personalization

The Company is investing in analytics and technology to better identify customer preferences and support direct, personalized communication – evolving from mass communications to personalized connections with its customers. The goal is to deploy world-class, personalized communications and offers to inspire customers and improve the experience and relevance of promotions.

Building on Cost and Margin Discipline

The Company has significantly improved its efficiency and cost competitiveness through Project Horizon. Further opportunity still remains to remove non value-added costs and optimize margins.

Drive Non-Merchandising Sourcing Efficiencies
The strategic sourcing team continues to build further efficiencies and cost reductions in all indirect spend.

Continue to Build Merchandising Sourcing Efficiencies
The Company continues to invest in advanced data analytics to support its category planning process. Merchants will continue to work with both national and private brand suppliers to sustain gains made through category by category reviews, while continuing to partner with suppliers on new opportunities to ensure the Company brings the best value and offers to its customers.

Invest in Best-in-Class Analytics to Improve Customer Value Proposition
Advanced analytics tools will help the Company shift the investment to products customers care most about with the goal of improving value for customers.

Advanced analytics tools will be leveraged nationally by category merchants across all formats to improve the Company's net cost of promotions, while improving value for customers. The promotional optimization initiative – a partnership between the advanced analytics team and category merchants – began to show benefits in margin during fiscal 2021. Additional investments in data analytics and technology are expected to drive further improvements in fiscal 2022.

Optimize Supply Chain Productivity
The Company continues to optimize its supply chain and logistics networks and consolidate certain procurement processes. In fiscal 2021 five distribution centres in British Columbia ("B.C.") and Quebec were consolidated into two facilities which increased capacity and efficiency in the network.

Improve System and Process
By leveraging technology to improve systems and process, the Company is driving efficiencies and cost reductions in its back office and support functions.

BUSINESS UPDATE

Farm Boy

The acquisition of Farm Boy on December 10, 2018 added 26 locations to the store network throughout Ontario with plans to double the store count in five years from the acquisition date, mainly in the Greater Toronto Area ("GTA"). During the fourth quarter, the Company opened one new location for a total of seven new stores and one relocation in fiscal 2021. The eighth store, originally expected to open in fiscal 2021, opened during the first week of fiscal 2022 due to COVID-19 construction delays. As of May 17, 2021, the Company has reached the halfway mark in its expansion goal of the Farm Boy banner in Ontario.

Since the acquisition, the Company now has 44 confirmed Farm Boy locations in Ontario:

- 39 Farm Boy stores currently open and operating as at June 22, 2021
- 5 Farm Boy stores expected to open in the remainder of fiscal 2022, net of one closure

In fiscal 2022, the Company has opened two stores to date and expects to open five additional Farm Boy stores in Ontario, net of one closure, aligned with its plans to open approximately 20 new locations throughout the three years of Project Horizon.

FreshCo

In fiscal 2018, the Company announced plans to expand the FreshCo discount format to Western Canada with expectations of converting up to 25% of the 255 Safeway and Sobeys full-service format stores in Western Canada to the FreshCo discount format.

The Company expects to have 40 locations open in Western Canada by the end of fiscal 2022 – over half of the original estimate. The Company opened 15 FreshCo stores this fiscal year, achieving the fiscal 2021 Project Horizon target.

Of the 40 confirmed FreshCo locations:

- 28 stores currently open and operating at June 22, 2021:
  - 16 in B.C.
  - 6 in Manitoba
  - 4 in Saskatchewan
  - 2 in Alberta
- 12 stores expected to open in fiscal 2022:
  - 10 in Alberta
  - 1 in Saskatchewan
  - 1 in Northern Ontario

Business Acquisition

On March 16, 2021, the Company, through a wholly-owned subsidiary, signed an agreement to acquire 51% of the business of Longo's, a long-standing, family-built network of specialty grocery stores in the GTA, and the Grocery Gateway e-commerce business, for a total purchase price of $357.0 million.

Subsequent to the fiscal year ended May 1, 2021, on May 4, 2021, Sobeys received a no-action letter from the Canadian Competition Bureau in relation to the Longo's transaction. The transaction subsequently closed on May 10, 2021. The transaction was financed through the issuance of 3,187,348 Non-Voting Class A shares to the vendors at a price of $39.22 per share, representing $125.0 million, cash of $193.6 million and acquired debt of $38.4 million. The purchase price is subject to final closing adjustments.

Store Closure, Conversion and Labour Buyout Costs

In the fourth quarter ended May 1, 2021, the Company reversed $1.1 million in accrued store closure and conversion costs primarily related to Farm Boy and FreshCo conversions (2020 – $4.2 million related to store conversions and labour buyouts).

As a result of these reversals, the net fiscal 2021 expense was $29.5 million (2020 – $7.0 million).

Ratification of New Collective Bargaining Agreement in Alberta

During the first quarter, the Company announced the ratification of a new Collective Bargaining Agreement ("CBA") for Alberta Safeway stores with UFCW 401, the Union representing the majority of Safeway teammates in Alberta. The five-year CBA is competitive within the Alberta market, placing the Company on a level playing field and providing flexibility and stability to better manage operational and labour costs in the province. The CBA also provides a pathway to advance the Company's plans to expand the FreshCo discount banner in Alberta.

The CBA included a one-time retroactive lump sum payment to Safeway Alberta teammates for hours worked over the past three years. The one-time retroactive lump sum payment of $14.8 million associated with this CBA was fully paid in the second quarter.

Supply Chain

During the fourth quarter, the Company consolidated two distribution centres in Quebec. All frozen items for the province of Quebec are now located in one distribution centre which creates a more effective supply chain.

During the first quarter, the Company opened a new distribution centre in B.C., which consolidates three previous distribution centres into one facility, securing a centralized location which increases capacity and efficiency in the network.

Voilà

On June 22, 2020, the Company introduced the future of online grocery home delivery to the GTA through the Company's newest e-commerce platform, *Voilà by Sobeys*. Voilà is powered by Ocado's industry-leading technology and fills orders through its automated CFC in Vaughan, Ontario. Robots assemble orders efficiently and safely, resulting in minimal product handling, while Voilà teammates deliver orders directly to the customer's home.

The Vaughan CFC, which is already servicing the GTA, Barrie, Kitchener, Waterloo, Guelph, and Hamilton, has recently extended its service area to include Niagara, St. Catharines and Brantford. The format is exceeding all Food retailing targets, with strong on-time delivery, fulfilment, and customer satisfaction and retention results.

In the third quarter of fiscal 2021, Crombie Real Estate Investment Trust ("Crombie REIT") completed the construction of the building for Voilà's second CFC in Montreal and turned it over to Ocado to build the internal technology. The CFC is expected to be ready to deliver to customers in early calendar 2022. This second CFC will support the launch of *Voilà par IGA* which will serve major cities in the province of Quebec.

The Company has accelerated its plans for e-commerce and intends to have four CFCs across Canada. The third CFC will be located in Calgary and will service the majority of Alberta. It is expected to deliver to customers in the first half of calendar 2023. With only four CFCs, the Company will be able to serve approximately 75% of Canadian households representing approximately 90% of Canadians' e-commerce spend.

In fiscal 2021, the Company launched Voilà Curbside Pickup service at 30 store locations across Nova Scotia, New Brunswick, Newfoundland and Labrador, Prince Edward Island and Alberta, and expects to add up to 90 new store locations in fiscal 2022. The Company plans to expand to hundreds of stores across the country over the next few years. The store pick solution is powered by Ocado's technology and will serve customers in areas where future CFCs will not deliver or are not yet built.

Voilà had a $0.04 and $0.18 dilutive impact after tax on earnings per share in the fourth quarter and fiscal year ended May 1, 2021, respectively (2020 – $0.01 and $0.04). In Canada, online grocery sales have continued to grow, although at a slower pace than when COVID-19 began. The Company's three e-commerce formats experienced combined sales growth of 15% in the fourth quarter compared to prior year.

INVESTMENTS AND OTHER OPERATIONS

Empire's Investments and other operations segment, as of May 1, 2021, included:

1. A 41.5% (41.5% fully diluted) equity accounted interest in Crombie REIT (TSX: CRR.UN), an Ontario registered, unincorporated, open-ended real estate investment trust. Crombie REIT is one of the country's leading national retail property landlords with a strategy to own, operate and develop a portfolio of high-quality grocery and pharmacy-anchored shopping centres, freestanding stores and mixed-use developments primarily in Canada's top urban and suburban markets; and
2. A 40.7% equity accounted interest in Genstar Development Partnership, a 48.6% equity accounted interest in Genstar Development Partnership II, a 39.0% equity accounted interest in GDC Investments 4, L.P., a 39.0% equity accounted interest in GDC Investments 6, L.P., a 39.0% equity accounted interest in GDC Investments 7, L.P., a 37.1% equity accounted interest in GDC Investments 8, L.P., and a 49.0% equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States.

Outlook

Management expects that fiscal 2022 will continue to be affected by the COVID-19 pandemic in the early part of the fiscal year, with some normalization of business throughout the year as vaccination rates increase and COVID-19 restrictions are relaxed. Although difficult to predict given the uniqueness of the situation, this is expected to result in increased levels of food consumption outside of the home and related reductions in grocery industry volumes. In addition, consumers are likely to begin shopping more frequently and from a greater number of grocery stores than they have over the past 19 months. Grocery formats that experienced lower relative growth during the pandemic lockdowns, such as discount, should experience higher relative sales. Management does not expect grocery customer behaviour to return fully to pre-pandemic levels for the foreseeable future. Fuel volumes are expected to increase as economic activity increases and travel restrictions reduce.

Empire expects that during fiscal 2022, same-store sales will reduce, as industry volumes decrease compared to the unusually high industry sales in fiscal 2021. Margins will continue to benefit from Project Horizon initiatives, including private label and promotions optimization, along with the addition of Longo's which has a higher margin rate than Empire as a whole, partially offset by effects of sales mix changes between banners, due to the expected easing of COVID-19 restrictions.

Empire expects improvements in the profitability of its Toronto based e-commerce site as volumes continue to increase and costs reduce due to improved operational efficiencies. At the same time, Voilà total costs will increase as the Montreal facility begins operations and store pick e-commerce is implemented in up to 90 additional stores. In total, the combination of improving results in Toronto, increasing costs in Montreal and additional store pick e-commerce locations is expected to reduce Empire's fiscal 2022 net earnings by approximately $0.25 to $0.30 per share (fiscal 2021 – $0.18). Future earnings will be impacted by the rate of sales growth that is difficult to predict, but management expects that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program, as the Toronto site is expected to begin to reflect positive EBITDA results towards the end of the third year of operations, partially offsetting the impacts of opening new CFCs.

The expansion of the Company's discount business in the West began 26 months ago, and there are now 28 discount stores operating in Western Canada. All stores opened in the first year have improved their results since opening and in aggregate are performing better than the full-service store that they replaced. FreshCo stores opened in the second year are performing better than those opened in the first year. Newer stores are improving efficiencies at a faster rate than the early conversion stores as the business gains critical mass. The Company continues to expand its discount presence in the West with 12 stores in different stages of development and expects to have 40 stores open by the end of fiscal 2022. The net impact of building the discount presence in Western Canada has been relatively immaterial to total earnings, but EBITDA has improved compared to the full-service stores that were converted.

When announcing the Project Horizon strategy, management estimated an increase over the three-year period of $500 million in EBITDA, excluding COVID-19 impacts. At that time, based on the last twelve months ended, February 1, 2020, management further indicated that they expected earnings per share to generate a compound average growth rate of at least 15% over the Project Horizon timeframe. For fiscal 2022, the net impact of lower results related to COVID-19 and the positive effect of Project Horizon initiatives are difficult to estimate. Management still expects the Company will achieve the Project Horizon strategy targets, but growth comparisons in fiscal 2022 for same-store sales and earnings per share in particular, will be affected by a full year of COVID-19 results in fiscal 2021.

Summary Results – Fourth Quarter

In the fourth quarter of fiscal 2020, the beginning of the pandemic led to high levels of consumer stock up activity resulting in unusual and significant favourable impacts in sales, gross profit and net earnings compared to the extent of the impacts in the fourth quarter of fiscal 2021.

	13 Weeks Ended			
($ in millions, except per share amounts)	**May 1, 2021**	May 2, 2020	$ Change	% Change
Sales	**$ 6,920.0**	$ 7,012.4	$ (92.4)	(1.3)%
Gross profit(1)	**1,795.7**	1,819.5	(23.8)	(1.3)%
Operating income	**295.0**	324.3	(29.3)	(9.0)%
EBITDA(1)	**514.4**	527.8	(13.4)	(2.5)%
Finance costs, net	**66.7**	69.0	(2.3)	(3.3)%
Income tax expense	**45.0**	66.5	(21.5)	(32.3)%
Non-controlling interest	**11.4**	11.0	0.4	3.6%
Net earnings(2)	**171.9**	177.8	(5.9)	(3.3)%
Basic earnings per share				
Net earnings(2)	**$ 0.65**	$ 0.66		
Basic weighted average number of shares outstanding (in millions)	**266.5**	269.0		
Diluted earnings per share				
Net earnings(2)	**$ 0.64**	$ 0.66		
Diluted weighted average number of shares outstanding (in millions)	**267.6**	269.7		
Dividend per share	**$ 0.13**	$ 0.12		

	13 Weeks Ended	
	May 1, 2021	May 2, 2020
Gross margin(1)	**25.9%**	25.9%
EBITDA margin(1)	**7.4%**	7.5%
Same-store sales(1) growth	**(4.5)%**	15.0%
Same-store sales growth, excluding fuel	**(6.1)%**	18.0%
Effective income tax rate	**19.7%**	26.0%

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Attributable to owners of the Company.

EMPIRE COMPANY LIMITED CONSOLIDATED OPERATING RESULTS

Effective the first quarter of fiscal 2021 and for comparative purposes, adjusted operating income, adjusted EBITDA, adjusted net earnings and related metrics within this document have been removed due to their immaterial nature.

Sales

In the prior year, sales increased significantly as there was a shift in consumer buying behaviour and significant stock up activity leading to higher sales in the fourth quarter. While sales continue to trend higher than pre-pandemic levels, consumer behaviour has begun to stabilize causing sales for the quarter ended May 1, 2021 to decrease by 1.3%. The decrease in sales was partially offset by higher fuel sales as a result of increased fuel prices, the expansion of FreshCo in Western Canada and Farm Boy in Ontario, and an increase in e-commerce sales primarily driven by Voilà.

Gross Profit

Gross profit for the quarter ended May 1, 2021 decreased by 1.3% primarily as a result of a decrease in sales. In the prior year, gross margin grew to 25.9% primarily as a result of category reset benefits, the effect of COVID-19 sales mix changes between banners and a less promotional environment. The full extent of these favourable impacts in the prior year was not replicated in the current quarter, however gross margin remained consistent at 25.9% through the use of advanced analytics promotional optimization tools and service department recoveries resulting from closures in the prior year due to COVID-19, offset by the effect of fuel sales and sales mix changes between non-fuel banners.

Operating Income

($ in millions)	13 Weeks Ended May 1, 2021		13 Weeks Ended May 2, 2020		$ Change
Consolidated operating income:					
Food retailing	$	**279.8**	$ 316.7	$	(36.9)
Investments and other operations:					
Crombie REIT		**11.8**	6.3		5.5
Genstar		**4.4**	2.3		2.1
Other operations, net of corporate expenses		**(1.0)**	(1.0)		–
		15.2	7.6		7.6
Operating income	$	**295.0**	$ 324.3	$	(29.3)

For the quarter ended May 1, 2021, operating income decreased mainly due to lower earnings from the Food retailing segment as a result of lower sales driven by the shift in consumer shopping behaviour in the fourth quarter of the prior year. Although lockdowns have continued to occur during the quarter, the extreme level of stock up activity that occurred when COVID-19 impacts began did not occur during the current year. In addition to lower sales, the decrease in operating income was partially due to a prior year gain on the surrender of a lease. The decrease is partially offset by lower selling and administrative expenses. Selling and administrative expenses decreased as a result of decreased labour costs, resulting from a decrease in the temporary Lockdown Bonus compared to the temporary Hero Pay program in the prior year, partially offset by higher store, distribution centre and backstage teammate compensation accruals, increased Voilà costs and an increase in right-of-use asset depreciation expense.

Operating income from the Investments and other operations segment for the quarter increased primarily as a result of improved equity earnings from Crombie REIT.

EBITDA

For the quarter ended May 1, 2021, EBITDA decreased to $514.4 million from $527.8 million in the prior year mainly as a result of the same factors affecting operating income. EBITDA margin decreased to 7.4% compared to 7.5% in the prior year.

Finance Costs

For the quarter ended May 1, 2021, net finance costs decreased primarily as a result of a decrease in interest expense on financial liabilities measured at amortized cost due to lower interest rates and debt levels.

Income Taxes

The effective income tax rate for the fourth quarter ended May 1, 2021 was 19.7% compared to 26.0% last year. The current quarter effective tax rate was lower than the statutory rate primarily due to the revaluation of tax estimates, not all of which are recurring, and non-taxable capital items. The effective rate in the prior year was lower than the statutory rate due to non-taxable capital items and differing tax rates of various entities.

Net Earnings

($ in millions, except per share amounts)	13 Weeks Ended May 1, 2021		13 Weeks Ended May 2, 2020		$ Change
Net earnings[(1)]	$	**171.9**	$ 177.8	$	(5.9)
EPS[(2)] (fully diluted)	$	**0.64**	$ 0.66		
Diluted weighted average number of shares outstanding (in millions)		**267.6**	269.7		

(1) Attributable to owners of the Company.
(2) Earnings per share ("EPS").

Operating Results – Full Year

$ in millions, except per share amounts)	52 Weeks Ended May 1, 2021	52 Weeks Ended May 2, 2020	52 Weeks Ended May 4, 2019	2021 Compared to 2020 $ Change	2021 Compared to 2020 % Change
Sales	**$ 28,268.3**	$ 26,588.2	$ 25,142.0	$ 1,680.1	6.3%
Gross profit	**7,199.3**	6,633.3	6,083.6	566.0	8.5%
Operating income	**1,299.5**	1,111.8	652.3	187.7	16.9%
EBITDA	**2,143.8**	1,892.4	1,069.5	251.4	13.3%
Finance costs, net	**269.4**	279.1	91.6	(9.7)	(3.5)%
Income tax expense	**265.9**	219.9	144.3	46.0	20.9%
Non-controlling interest	**62.7**	29.3	29.1	33.4	114.0%
Net earnings(1)	**701.5**	583.5	387.3	118.0	20.2%
Basic earnings per share					
Net earnings(1)	**$ 2.61**	$ 2.16	$ 1.42		
Basic weighted average number of shares outstanding (in millions)	**268.3**	270.4	271.9		
Diluted earnings per share					
Net earnings(1)	**$ 2.60**	$ 2.15	$ 1.42		
Diluted weighted average number of shares outstanding (in millions)	**269.3**	271.4	272.6		
Dividend per share	**$ 0.52**	$ 0.48	$ 0.44		

	52 Weeks Ended May 1, 2021	52 Weeks Ended May 2, 2020	52 Weeks Ended May 4, 2019
Gross margin	**25.5%**	24.9%	24.2%
EBITDA margin	**7.6%**	7.1%	4.3%
Same-store sales growth	**4.7%**	4.6%	2.8%
Same-store sales growth, excluding fuel	**5.6%**	5.7%	2.7%
Effective income tax rate	**25.8%**	26.4%	25.7%

(1) Attributable to owners of the Company.

EMPIRE COMPANY LIMITED CONSOLIDATED OPERATING RESULTS

Effective the first quarter of fiscal 2021 and for comparative purposes, adjusted operating income, adjusted EBITDA, adjusted net earnings and related metrics within this document have been removed due to their immaterial nature.

Sales

Sales for the fiscal year ended May 1, 2021 increased by 6.3% primarily driven by the impact of COVID-19, market share gains in the Food retailing segment, and the expansion of FreshCo in Western Canada and Farm Boy in Ontario.

Gross Profit

Gross profit for the fiscal year ended May 1, 2021 increased by 8.5% primarily as a result of increases in sales. Gross margin for the fiscal year increased to 25.5% from 24.9% last year primarily resulting from the use of advanced analytic promotional optimization tools and sales mix changes between banners.

Operating Income

($ in millions)	52 Weeks Ended May 1, 2021	52 Weeks Ended May 2, 2020	$ Change
Consolidated operating income:			
Food retailing	**$ 1,251.3**	$ 1,040.2	$ 211.1
Investments and other operations:			
Crombie REIT	**32.7**	50.7	(18.0)
Genstar	**21.3**	20.1	1.2
Other operations, net of corporate expenses	**(5.8)**	0.8	(6.6)
	48.2	71.6	(23.4)
Operating income	**$ 1,299.5**	$ 1,111.8	$ 187.7

For the fiscal year ended May 1, 2021, operating income increased mainly due to improved earnings from the Food retailing segment as a result of higher sales driven by the impact of COVID-19, higher gross profit and a $30.3 million gain on a significant sale of property recorded in other income in the first quarter, partially offset by higher selling and administrative expenses. Selling and administrative expenses increased primarily as a result of higher labour costs, higher compensation accruals for store, distribution centre and backstage teammates, spending on sanitization and safety measures, increased costs for Voilà and an increase in right-of-use asset depreciation expense. The increased labour costs substantially relate to the Company's temporary Hero Pay program and the related one-time bonus costs in the first quarter for frontline employees in stores and distribution centres, and the temporary Lockdown Bonus introduced in the third quarter.

For the fiscal year, operating income from the Investments and other operations segment decreased primarily as a result of a sale in the prior year of a 15-property portfolio by Crombie REIT, as discussed in the "Investments and Other Operations" section.

EBITDA

For the fiscal year ended May 1, 2021, EBITDA increased to $2,143.8 million from $1,892.4 million in the prior year mainly as a result of the same factors affecting operating income. EBITDA margin increased to 7.6% from 7.1%.

Finance Costs

For the fiscal year ended May 1, 2021, net finance costs decreased primarily due to the decrease of interest expense on other financial liabilities at amortized cost due to lower interest rates and debt levels, partially offset by an increase in interest expense on lease liabilities.

Income Taxes

The effective income tax rate for the fiscal year ended May 1, 2021 was 25.8% compared to 26.4% last year. The current year effective rate was lower than the statutory rate primarily due to the revaluation of tax estimates and non-taxable capital items offset by differing tax rates of various entities. The prior year's effective rate was lower than the statutory rate primarily due to non-taxable capital items and differing tax rates of various entities.

Net Earnings

($ in millions, except per share amounts)	52 Weeks Ended May 1, 2021	52 Weeks Ended May 2, 2020	$ Change
Net earnings[(1)]	**$ 701.5**	$ 583.5	$ 118.0
EPS (fully diluted)	**$ 2.60**	$ 2.15	
Diluted weighted average number of shares outstanding (in millions)	**269.3**	271.4	

(1) Attributable to owners of the Company.

Financial Performance by Segment

FOOD RETAILING

The following is a review of Empire's Food retailing segment's financial performance, comprising the consolidated results of Sobeys for the fiscal years ended May 1, 2021, May 2, 2020 and May 4, 2019.

The following financial information is Sobeys' contribution to Empire as the amounts are net of consolidation adjustments. For further analysis of these adjustments, see the "Operating Results – Full Year" section.

($ in millions)	**52 Weeks Ended May 1, 2021**	52 Weeks Ended May 2, 2020	52 Weeks Ended May 4, 2019	2021 Compared to 2020 $ Change	2021 Compared to 2020 % Change
Sales	**$ 28,268.3**	$ 26,588.2	$ 25,142.0	$ 1,680.1	6.3%
Gross profit	**7,199.3**	6,633.3	6,083.6	566.0	8.5%
Operating income	**1,251.3**	1,040.2	561.8	211.1	20.3%
EBITDA	**2,094.7**	1,820.7	978.7	274.0	15.0%
Net earnings(1)	**673.9**	528.1	316.5	145.8	27.6%

(1) Attributable to owners of the Company.

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

($ in millions)	**52 Weeks Ended May 1, 2021(1)**	52 Weeks Ended May 2, 2020(1)	52 Weeks Ended May 4, 2019
Sales growth	**6.3%**	5.8%	3.8%
Same-store sales growth	**4.7%**	4.6%	2.8%
Same-store sales growth, excluding fuel	**5.6%**	5.7%	2.7%
Return on equity(2)	**20.8%**	18.3%	11.6%
Net funded debt to net total capital(2)	**63.5%**	66.3%	32.8%
Funded debt to EBITDA(2)	**3.3x**	3.8x	2.1x
Acquisitions of property, equipment, investment property and intangibles	**$ 659.1**	$ 574.8	$ 434.6

(1) Key Financial Condition Measures are impacted by the implementation of IFRS 16, "Leases" ("IFRS 16").
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

INVESTMENTS AND OTHER OPERATIONS

($ in millions)	52 Weeks Ended **May 1, 2021**	52 Weeks Ended May 2, 2020	$ Change
Crombie REIT	**$ 32.7**	$ 50.7	$ (18.0)
Genstar	**21.3**	20.1	1.2
Other operations, net of corporate expenses	**(5.8)**	0.8	(6.6)
	$ 48.2	$ 71.6	$ (23.4)

For the fiscal year ended May 1, 2021, income from Investments and other operations decreased principally due to a sale in the prior year of a 15-property portfolio by Crombie REIT that contributed an additional $15.1 million to the Company's equity earnings and a $6.9 million deferred gain recognition, increased bad debt expense resulting from the impact of COVID-19 on collection of outstanding receivable balances and the impact of the federal government's Canada Emergency Commercial Rent Assistance program. The $6.9 million deferred gain recognition was included in other operations, net of corporate expenses.

Quarterly Results of Operations

($ in millions, except per share amounts)	Fiscal 2021 Q4 (13 Weeks) May 1, 2021	Q3 (13 Weeks) Jan. 30, 2021	Q2 (13 Weeks) Oct. 31, 2020	Q1 (13 Weeks) Aug. 1, 2020	Fiscal 2020 Q4 (13 Weeks) May 2, 2020	Q3 (13 Weeks) Feb. 1, 2020	Q2 (13 Weeks) Nov. 2, 2019	Q1 (13 Weeks) Aug. 3, 2019
Sales	**$ 6,920.0**	$ 7,018.7	$ 6,975.4	$ 7,354.2	$ 7,012.4	$ 6,395.2	$ 6,436.5	$ 6,744.1
Operating income	**295.0**	320.4	306.5	377.6	324.3	235.0	286.4	266.1
EBITDA(1)	**514.4**	533.5	513.4	582.5	527.8	426.9	477.7	460.0
Net earnings(2)	**171.9**	176.3	161.4	191.9	177.8	120.5	154.6	130.6
Per share information, basic								
Net earnings(2)	**$ 0.65**	$ 0.66	$ 0.60	$ 0.71	$ 0.66	$ 0.45	$ 0.57	$ 0.48
Basic weighted average number of shares outstanding (in millions)	**266.5**	268.1	269.0	269.0	269.0	269.7	271.3	271.8
Per share information, diluted								
Net earnings(2)	**$ 0.64**	$ 0.66	$ 0.60	$ 0.71	$ 0.66	$ 0.45	$ 0.57	$ 0.48
Diluted weighted average number of shares outstanding (in millions)	**267.6**	269.1	270.1	269.8	269.7	270.6	272.4	272.9

(1) EBITDA is reconciled to net earnings for the current and comparable period in the "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Attributable to owners of the Company.

For the last seven quarters, results have consistently improved compared to the same period in the prior year. In the current quarter there was a decrease in results compared to last year driven by the impacts of COVID-19 and the shift in consumer shopping behaviour. This shift led to higher sales in the fourth quarter of fiscal 2020 which continue to trend high but have begun to stabilize since the start of the pandemic. Additionally, the Company experienced a significant increase in sales, gross profit, and selling and administrative expenses largely due to impacts from COVID-19 in the first three quarters of fiscal 2021.

Sales are affected by fluctuations in inflation. Results are affected by seasonality, in particular during the summer months and over the holidays when retail sales trend higher and can result in stronger operating results. Sales, operating income, EBITDA and net earnings have been influenced by the Company's strategic investment activities, the competitive environment, cost management initiatives, food price and general industry trends as well as other risk factors as outlined in the "Risk Management" section.

Liquidity and Capital Resources

The table below highlights significant cash flow components for the relevant periods. For additional detail, please refer to the consolidated statements of cash flows in the Company's audited consolidated financial statements for the fiscal year ended May 1, 2021.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 1, 2021**	May 2, 2020	**May 1, 2021**	May 2, 2020
Cash flows from operating activities	**$ 562.3**	$ 887.6	**$ 1,859.6**	$ 2,089.4
Cash flows used in investing activities	**(152.8)**	(186.4)	**(502.3)**	(376.3)
Cash flows used in financing activities	**(303.3)**	(230.0)	**(1,475.2)**	(1,258.0)
Increase (decrease) in cash and cash equivalents	**$ 106.2**	$ 471.2	**$ (117.9)**	$ 455.1

Operating Activities

Cash flows from operating activities for the quarter ended May 1, 2021 decreased as a result of an increase in non-cash working capital, increased income taxes paid and lower cash earnings. The increase in working capital is primarily a result of the reversal of favourable working capital impacts in the fourth quarter of fiscal 2020 when COVID-19 volume activity increased accounts payable.

For the fiscal year ended May 1, 2021, cash flows from operating activities decreased as a result of increased income taxes paid and an increase in non-cash working capital. The increase in working capital is primarily a result of the reversal of favourable working capital impacts in the fourth quarter of fiscal 2020 when COVID-19 volume activity increased accounts payable.

Investing Activities

The table below outlines details of investing activities of the Company for the quarter and fiscal year ended May 1, 2021 compared to the quarter and fiscal year ended May 2, 2020:

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 1, 2021**	May 2, 2020	**May 1, 2021**	May 2, 2020
Acquisitions of property, equipment, investment property and intangibles	**$ (210.6)**	$ (181.3)	**$ (659.1)**	$ (617.8)
Proceeds on disposal of assets[(1)] and lease terminations	**49.7**	26.8	**113.7**	193.1
Leases and other receivables, net	**(18.8)**	18.1	**(30.2)**	20.6
Other assets and other long-term liabilities	**5.0**	(17.6)	**4.6**	4.1
Business acquisitions	**(5.5)**	(13.4)	**(15.9)**	(19.2)
Payments received for finance subleases	**26.4**	19.9	**79.1**	76.4
Interest received	**1.0**	2.6	**5.5**	8.0
Increase in equity investments	**–**	(41.5)	**–**	(41.5)
Cash flows used in investing activities	**$ (152.8)**	$ (186.4)	**$ (502.3)**	$ (376.3)

(1) Proceeds on disposal of assets include property, equipment and investment property.

Cash used in investing activities for the quarter ended May 1, 2021 decreased primarily as a result of the purchase of $41.5 million of Crombie REIT Class B limited partnership units ("Class B LP units") in the prior year which did not recur in the current year and an increase in proceeds on disposal of assets and a decrease in other long-term liabilities. These impacts were partially offset by higher capital investments, and a net change in leases and other receivables.

For the fiscal year ended May 1, 2021, cash used in investing activities increased as a result of a decrease in proceeds on disposal of assets, a net change in leases and other receivables, and higher capital investments. These impacts were partially offset by the purchase of $41.5 million of Crombie REIT Class B LP units in the prior year which did not recur in the current year.

Capital Expenditures

The Company invested $231.6 million and $679.2 million in capital expenditures[1] for the quarter and fiscal year ended May 1, 2021, respectively (2020 – $226.6 million and $574.8 million) including renovations, construction of new stores, construction of an e-commerce fulfilment centre, construction of FreshCo locations in Western Canada and investments in advanced analytics technology and other technology systems. This is in line with management's previously disclosed expectations that capital spending in fiscal 2021 would be between $650 million and $675 million.

In fiscal 2022, capital spending is expected to be approximately $765 million, with approximately half of this investment allocated to renovations and new stores. The Company will open 10 to 15 FreshCo stores in Western Canada and expand the Farm Boy footprint by seven net new stores in Ontario. The Company will also continue to invest approximately 15% of its estimated spending on advanced analytics technology and other technology systems. The Company's total investment in Voilà for fiscal 2022 is expected to be approximately $80 million, including its share of the investment in the Montreal and Calgary CFCs, up to 90 new store pickup locations, additional spokes and the associated investments in technology.

(1) Capital expenditure is calculated on an accrual basis and includes acquisitions of property, equipment and investment properties, and additions to intangibles.

Store Network Activity and Square Footage

The table below outlines details of investments by Sobeys in its store network during the quarter and fiscal year ended May 1, 2021 compared to the prior year.

	13 Weeks Ended		52 Weeks Ended	
# of stores	**May 1, 2021**	May 2, 2020	**May 1, 2021**	May 2, 2020
Opened/relocated/acquired[2]	**3**	11	**22**	28
Expanded	**1**	–	**2**	3
Rebannered/redeveloped	**3**	–	**7**	1
	7	5	**26**	25
Closed[2]				
Opened – FreshCo[3]	**6**	2	**15**	10
	1	4	**1**	9
Closed – pending conversion to FreshCo[3]				
Opened – Farm Boy	**1**	1	**6**	3
Closed – pending conversion to Farm Boy	**1**	–	**4**	2

(2) Total impact excluding the acquisition of Farm Boy and expansion of FreshCo.
(3) Specific to converted Western Canada FreshCo stores.

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 1, 2021:

Square feet (in thousands)	**13 Weeks Ended May 1, 2021**	**52 Weeks Ended May 1, 2021**
Opened	**48**	**249**
Rebannered/redeveloped	**22**	**44**
Expanded	**10**	**11**
Closed	**(26)**	**(269)**
Net change before the impact of the acquisition of Farm Boy & expansion of FreshCo	**54**	**35**
	104	**420**
Opened – FreshCo[4]		
Closed – pending conversion to FreshCo[4]	**(33)**	**(33)**
Opened – Farm Boy	**27**	**164**
Closed – pending conversion to Farm Boy	**(50)**	**(135)**
Opened – Farm Boy relocation, net	**–**	**19**
Net change	**102**	**470**

(4) Specific to converted Western Canada FreshCo stores, net of Safeway and Sobeys closures.

At May 1, 2021, Sobeys' retail space totalled 40.3 million square feet, a 0.3% increase compared to 39.8 million square feet at May 2, 2020.

Financing Activities

Cash used in financing activities for the quarter ended May 1, 2021 increased due to the purchase of Non-Voting Class A shares and the timing of lease payments due to the reporting quarter end date. These increases were partially offset by advances on credit facilities.

For the fiscal year ended May 1, 2021, cash used in financing activities increased due to repayment of credit facilities and an increase in purchases of Non-Voting Class A shares in the prior year.

Free Cash Flow

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

($ in millions)	13 Weeks Ended May 1, 2021	13 Weeks Ended May 2, 2020	$ Change	52 Weeks Ended May 1, 2021	52 Weeks Ended May 2, 2020	$ Change
Cash flows from operating activities	**$ 562.3**	$ 887.6	$ (325.3)	**$ 1,859.6**	$ 2,089.4	$ (229.8)
Add: proceeds on disposal of assets[(1)] and lease terminations	**49.7**	26.8	22.9	**113.7**	193.1	(79.4)
Less: payments of lease liabilities, net of payments received for finance subleases	**(192.5)**	(138.3)	(54.2)	**(569.3)**	(533.9)	(35.4)
Less: acquisitions of property, equipment, investment property and intangibles	**(210.6)**	(181.3)	(29.3)	**(659.1)**	(617.8)	(41.3)
Free cash flow[(2)]	**$ 208.9**	$ 594.8	$ (385.9)	**$ 744.9**	$ 1,130.8	$ (385.9)

(1) Proceeds on disposal of assets include property, equipment and investment property.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

Free cash flow decreased for the quarter ended May 1, 2021 primarily as a result of a decrease in cash flow from operating activities, as discussed in the "Operating Activities" section above, and the timing of lease payments due to the reporting quarter end date.

Free cash flow for the fiscal year ended May 1, 2021 decreased primarily as a result of a decrease in cash flow from operating activities, as discussed in the "Operating Activities" section above, a decrease in proceeds on disposals of assets and an increase in capital investments.

Employee Future Benefit Obligations

For the fiscal year ended May 1, 2021, the Company contributed $17.4 million (2020 – $18.3 million) to its registered defined benefit plans. The Company expects to contribute approximately $22.3 million to these plans in fiscal 2022.

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 1, 2021:

($ in millions)	2022	2023	2024	2025	2026	Thereafter	**Total**
Commitments							
Long-term debt[(1)]	$ 138.5	$ 10.5	$ 510.3	$ 7.9	$ 5.8	$ 556.1	**$ 1,229.1**
Third party finance leases, as lessee	514.1	513.3	492.6	462.3	420.3	2,929.0	**5,331.6**
Related party finance leases, as lessee	171.3	172.8	174.7	174.6	171.4	1,604.3	**2,469.1**
Contractual obligations	823.9	696.6	1,177.6	644.8	597.5	5,089.4	**9,029.8**
Third party finance subleases, as lessor	(77.9)	(75.3)	(69.9)	(64.6)	(58.3)	(328.1)	**(674.1)**
Owned properties operating leases, as lessor	(8.1)	(7.5)	(6.6)	(5.3)	(3.7)	(10.7)	**(41.9)**
Subleased properties operating leases, as lessor	(67.8)	(61.2)	(52.2)	(41.0)	(34.5)	(169.4)	**(426.1)**
Contractual obligations, net	**$ 670.1**	**$ 552.6**	**$ 1,048.9**	**$ 533.9**	**$ 501.0**	**$ 4,581.2**	**$ 7,887.7**

(1) Principal debt repayments.

For further information on guarantees and commitments, please see Notes 10 and 16 of the Company's audited annual consolidated financial statements for the fiscal year ended May 1, 2021.

Consolidated Financial Condition

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		May 1, 2021[1]		May 2, 2020[1]		May 4, 2019
Shareholders' equity, net of non-controlling interest	**$**	**4,372.7**	$	3,924.6	$	4,003.3
Book value per common share[2]	**$**	**16.30**	$	14.51	$	14.72
Long-term debt, including current portion	**$**	**1,225.3**	$	1,675.2	$	2,020.9
Long-term lease liabilities, including current portion	**$**	**5,908.1**	$	5,266.2	$	–
Net funded debt to net total capital[2]		**58.8%**		60.2%		26.8%
Funded debt to EBITDA[2]		**3.3x**		3.7x		1.9x
EBITDA to interest expense[2]		**8.0x**		6.8x		12.4x
Current assets to current liabilities		**0.9x**		0.8x		1.0x
Total assets	**$**	**15,173.9**	$	14,632.9	$	9,602.4
Total non-current financial liabilities	**$**	**7,187.7**	$	6,559.0	$	2,838.1

(1) Key Financial Condition Measures are impacted by the implementation of IFRS 16.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

During fiscal 2021, Standard & Poor's ("S&P") upgraded Sobeys' credit rating from BB+ with a positive outlook to BBB- with a stable outlook. Dominion Bond Rating Service ("DBRS") confirmed Sobeys' rating at BBB (low) with a stable trend. The following table shows Sobeys' credit ratings as at May 1, 2021:

Rating Agency	Credit Rating (Issuer rating)	Trend/Outlook
DBRS	BBB (low)	Stable
S&P	BBB-	Stable

The Company has a $250.0 million senior, unsecured revolving term credit facility with a maturity date of November 4, 2022. As of May 1, 2021, the outstanding amount of the credit facility was $119.8 million (2020 – $62.6 million). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

Sobeys has a $650.0 million senior, unsecured revolving term credit facility with a maturity date of November 4, 2022. As of May 1, 2021, the outstanding amount of the facility was $ nil (2020 – $ nil) and Sobeys has issued $86.1 million in letters of credit against the facility (2020 – $76.4 million). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

On June 2, 2017, Sobeys established a senior, unsecured non-revolving credit facility for $500.0 million. During the second quarter, this facility, originally scheduled to mature on November 4, 2020, was fully repaid.

On December 5, 2018, Sobeys established a senior, unsecured non-revolving credit facility for $400.0 million. The facility was fully utilized on December 10, 2018, with the proceeds used to fund part of the Farm Boy acquisition. During the third quarter, this facility, originally scheduled to mature on December 10, 2020, was fully repaid.

The Company believes its cash and cash equivalents on hand, approximately $694 million in unutilized, aggregate credit facilities as of May 1, 2021, 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 and long-term financial obligations, such as the acquisition of Longo's. The Company mitigates potential liquidity risk by ensuring its sources of funds are diversified by term to maturity and source of credit.

For additional information on Empire's long-term debt, see Note 16 of the Company's audited annual consolidated financial statements for the fiscal year ended May 1, 2021.

Shareholders' Equity

The Company's share capital was comprised of the following on May 1, 2021:

Authorized	Number of Shares May 1, 2021	May 2, 2020
2002 Preferred shares, par value of $25 each, issuable in series	**991,980,000**	991,980,000
Non-Voting Class A shares, without par value	**760,984,006**	765,108,266
Class B common shares, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding ($ in millions)	Number of Shares	May 1, 2021	May 2, 2020
Non-Voting Class A shares	**167,323,301**	**$ 1,963.4**	$ 2,009.1
Class B common shares	**98,138,079**	**7.3**	7.3
Shares held in trust	**(46,512)**	**(0.9)**	(3.2)
Total		**$ 1,969.8**	$ 2,013.2

The Company's share capital on May 1, 2021 compared to the same period in the last fiscal year is shown in the table below:

(Number of shares)	52 Weeks Ended May 1, 2021	May 2, 2020
Non-Voting Class A shares		
Issued and outstanding, beginning of year	**170,971,038**	173,661,495
Issued during year	**476,523**	307,126
Purchased for cancellation	**(4,124,260)**	(2,997,583)
Issued and outstanding, end of year	**167,323,301**	170,971,038
Shares held in trust, beginning of year	**(163,497)**	(271,968)
Issued for future settlement of equity settled plans	**117,809**	109,620
Purchased for future settlement of equity settled plans	**(824)**	(1,149)
Shares held in trust, end of year	**(46,512)**	(163,497)
Issued and outstanding, net of shares held in trust, end of year	**167,276,789**	170,807,541
Class B common shares		
Issued and outstanding, beginning and end of year	**98,138,079**	98,138,079

The outstanding options at May 1, 2021 were granted at prices between $18.70 and $36.86 and expire between June 2021 and June 2028 with a weighted average remaining contractual life of 5.51 years. Stock option transactions during fiscal 2021 and 2020 were as follows:

	Fiscal 2021		Fiscal 2020	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**4,685,664**	**$ 26.03**	4,293,888	$ 23.31
Granted	**926,108**	**30.90**	1,730,178	31.38
Exercised	**(1,196,129)**	**22.67**	(1,115,115)	24.57
Expired	**(5,216)**	**25.44**	(3,525)	30.23
Forfeited	**(49,395)**	**31.32**	(219,762)	22.40
Balance, end of year	**4,361,032**	**$ 27.96**	4,685,664	$ 26.03
Stock options exercisable, end of year	**1,346,483**		1,732,433	

For the fiscal year ended May 1, 2021, the Company paid common dividends of $139.4 million (2020 – $129.7 million) to its common shareholders, representing $0.52 per share (2020 – $0.48 per share) for common shareholders.

As at June 21, 2021, the Company had Non-Voting Class A and Class B common shares outstanding of 169,368,174 and 98,138,079, respectively. Options to acquire 4,361,032 Non-Voting Class A shares were outstanding as of May 1, 2021 (May 2, 2020 – 4,685,644). As at June 21, 2021, options to acquire 4,342,660 Non-Voting Class A shares were outstanding (June 16, 2020 – 4,681,690).

The Company established a trust fund to facilitate the purchase of Non-Voting Class A shares for the future settlement of vested units under the Company's equity settled stock-based compensation plans. Contributions to the trust fund and the Non-Voting Class A shares purchased are held by AST Trust Company (Canada) as trustee. The trust fund is a structured entity and as such the accounts of the trust fund are included on the consolidated financial statements of the Company. The following represents the activity of shares held in trust, recorded at cost:

Shares held in trust	**Number of Shares**		**May 1, 2021**		May 2, 2020
Balance, beginning of year	**163,497**	**$**	**3.2**	$	5.3
Purchased	**824**		**–**		–
Issued	**(117,809)**		**(2.3)**		(2.1)
Balance, end of year	**46,512**	**$**	**0.9**	$	3.2

Normal Course Issuer Bid

On June 18, 2020, the Company renewed its NCIB by filing a notice of intention with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 5.0 million Non-Voting Class A shares ("Class A shares") representing 3.0% of the Class A shares outstanding. The purchases will be made through the facilities of the TSX and/or any alternative trading systems to the extent they are eligible. The price that Empire will pay for any such shares will be the market price at the time of acquisition. Purchases could commence on July 1, 2020 and shall terminate not later than July 1, 2021.

On April 19, 2021, the Company increased the size of its current NCIB by filing an amended notice of intention with the TSX. The amendment increases the number of Class A shares the Company intends to purchase for cancellation to 8,548,551 representing 5.0% of Class A shares outstanding.

On June 22, 2021, the Company renewed its NCIB by filing a notice of intention with the TSX to purchase for cancellation up to 8,468,408 Class A shares representing 5.0% of the 169,368,174 Class A shares outstanding as of June 18, 2021, subject to regulatory approval. The purchases will be made through the facilities of the TSX and/or any alternative trading systems to the extent they are eligible. The price that Empire will pay for any such shares will be the market price at the time of acquisition. The Company believes that repurchasing shares at the prevailing market prices from time to time is a worthwhile use of funds and in the best interests of Empire and its shareholders. Purchases could commence on July 2, 2021 and shall terminate not later than July 1, 2022.

Based on average daily trading volume ("ADTV") of 493,273 over the last six months, daily purchases will be limited to 123,318 Class A shares (25% of the ADTV of the Class A shares), other than block purchase exemptions.

The Company has also renewed its automatic share purchase plan with its designated broker allowing the purchase of Class A shares for cancellation under its NCIB during trading black-out periods, subject to regulatory approval.

Under the Company's current NCIB, as of June 21, 2021 the Company has purchased 5,272,860 shares at a weighted average price of $37.83 for a total consideration of $199.5 million.

Shares purchased under the Company's NCIB for the fourth quarter and fiscal year ended May 1, 2021 are shown in the table below:

	13 Weeks Ended				52 Weeks Ended			
($ in millions, except per share amounts)		**May 1, 2021**		May 2, 2020		**May 1, 2021**		May 2, 2020
Number of shares		**2,079,443**		–		**4,124,260**		2,997,583
Weighted average price per share	**$**	**38.76**	$	–	**$**	**37.24**	$	33.36
Cash consideration paid	**$**	**80.6**	$	–	**$**	**153.6**	$	100.0

Accounting Standards and Policies

Standards, Amendments and Interpretations Issued but not yet Adopted

In May 2020, the IASB issued a package of narrow-scope amendments to three standards (IFRS 3, "Business Combinations"; IAS 16, "Property, Plant and Equipment"; and IAS 37, "Provisions, Contingent Liabilities and Contingent Assets") as well as the IASB's *Annual Improvements to IFRS Standards 2018 – 2020*. These amendments to existing IFRS standards are to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. These amendments are effective for annual periods beginning on or after January 1, 2022. The Company is assessing the potential impact of these narrow-scope amendments.

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1, "Presentation of Financial Statements")*. The narrow-scope amendment affects only the presentation of liabilities in the statement of financial position and not the amount or timing of recognition. Specifically, it clarifies:

- the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least 12 months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- that "settlement" refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

These amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the potential impact of this narrow-scope amendment.

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with generally accepted accounting principles ("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, estimates of 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 the Company may undertake in the future. Management regularly evaluates the estimates and assumptions it uses. Actual results could differ from these estimates.

Leases

Estimates and judgments are used in the measurement of lease liabilities and right-of-use assets, with key assumptions related to the determination of discount rates and lease term expectations.

Non-Controlling Interest Put and Call Options

The Company has applied estimates and judgment to the non-controlling interest put and call options the Company entered into as part of business acquisitions. The calculation is an earnings multiple that has various components including estimates of cash flows and discount rates.

Valuation of Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment are required in the determination of (i) estimated inventory provisions associated with vendor allowances and internal charges; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) inventories valued at retail and adjusted to cost. 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.

Impairments of Non-Financial Assets

Management assesses impairment of non-financial assets such as investments in associates and joint ventures, goodwill, intangible assets, property and equipment, right-of-use assets and investment property. In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit ("CGU") based on expected future cash flows. When measuring expected future cash flows, management makes assumptions about future growth of profits which relate to future events and circumstances. Actual results could vary from these estimated future cash flows. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate.

Goodwill is subject to impairment testing on an annual basis. The Company performed its annual assessment of goodwill impairment during its third quarter. However, if indicators of impairment are present, the Company will review goodwill for impairment when such indicators arise. In addition, at each reporting period, the Company reviews whether there are indicators that the recoverable amount of long-lived assets may be less than their carrying amount.

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

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 18 of the Company's audited annual consolidated 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.

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 after initial recognition would affect the measurement of goodwill, except for deferred taxes.

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.

Vendor Allowances

The Company has supply agreements with varying terms for purchase of goods for resale, some of which include volume related allowances, purchase discounts, listing fees and other discounts and allowances. Estimates and judgment are required when the receipt of allowances is conditional on the Company achieving specified performance conditions associated with the purchase of product and determining if these have been met. These include estimates of achieving agreed volume targets based on historical and forecast performance.

Disclosure Controls and Procedures

Management of the Company, which includes the President & Chief Executive Officer ("CEO") and Executive Vice President & Chief Financial Officer ("CFO"), 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. The CEO and CFO have evaluated the effectiveness of the Company's DC&P and, based on that evaluation, the CEO and CFO have concluded that the Company's DC&P was effective as at May 1, 2021 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 CFO, 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 *"Internal Control Integrated Framework (2013)"* published by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO have evaluated the effectiveness of the Company's ICFR and, based on that evaluation, the CEO and CFO have concluded that the Company's ICFR was effective as at May 1, 2021 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 January 31, 2021 and ended May 1, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Related Party Transactions

The Company enters into related party transactions with Crombie REIT and key management personnel, including ongoing leases and property management agreements. The Company holds a 41.5% (2020 – 41.5%) ownership interest in Crombie REIT and accounts for its investment using the equity method.

Crombie REIT has instituted a distribution re-investment plan ("DRIP") whereby Canadian resident REIT unitholders may elect to automatically have their distributions reinvested in additional REIT units. The Company has enrolled in the DRIP to maintain its economic and voting interest in Crombie REIT.

The Company leased certain real property from Crombie REIT during the year at amounts which in management's opinion approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value based on the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases totalled approximately $209.1 million (2020 – $188.8 million).

Crombie REIT provides administrative and property management services to the Company on a fee for service basis pursuant to a Management Agreement effective January 1, 2016. The Management Agreement replaces the previous arrangement where charges incurred were on a cost recovery basis.

During the year ended May 1, 2021, Sobeys, through a wholly-owned subsidiary, sold and leased back six properties to Crombie REIT for cash consideration of $45.3 million resulting in a per-tax gain of $1.5 million.

During the year ended May 1, 2021, Sobeys, through a wholly-owned subsidiary, received $25.4 million (2020 – $61.8 million) for reimbursements of lessor improvements from Crombie REIT. These payments are related to modernization and efficiency improvements of existing properties, and construction allowances. As of May 1, 2021, an additional $3.8 million is currently receivable from Crombie REIT for these reimbursements.

On February 11, 2020, Crombie REIT finalized a bought-deal public offering of units at a price of $16.00 per unit for aggregate proceeds of $100.0 million. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 million of Class B LP units.

On December 16, 2019, Sobeys, through a wholly-owned subsidiary, sold and leased back 50% of a distribution centre to Crombie REIT for cash consideration of $95.7 million. This resulted in a pre-tax gain of $9.0 million. Crombie REIT now owns 100% of the property.

On November 28, 2019, Sobeys, through a wholly-owned subsidiary, sold one property to Crombie REIT for cash consideration of $3.2 million. There was no gain or loss as a result of this sale.

On August 1, 2019, Sobeys, through a wholly-owned subsidiary, sold 50% of a property to Crombie REIT for cash consideration of $9.5 million resulting in a pre-tax gain of $1.5 million.

On May 28, 2019, Crombie REIT announced an agreement to sell an 89% interest in a 15-property portfolio to a third-party purchaser which closed on October 7, 2019. Sobeys and Crombie REIT entered into lease amending agreements on properties disposed where Sobeys was a lessee to secure longer contractual terms, as well as additional option terms on the sites. As consideration for these amendments, Crombie REIT agreed to pay an aggregate amount to Sobeys over a period of three years. As of May 1, 2021, Sobeys has accrued a total of $2.2 million in current receivables related to these amounts.

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:

	52 Weeks Ended	
($ in millions)	**May 1, 2021**	May 2, 2020
Salaries, bonus and other short-term employment benefits	**$ 20.0**	$ 14.1
Post-employment benefits	**1.6**	2.7
Share-based payments	**9.4**	9.9
	$ 31.0	$ 26.7

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

The Company is subject to claims and litigation arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material.

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. In order to achieve and sustain superior business performance an Enterprise Risk Management ("ERM") program has been established within the Company.

As part of the ERM process, the Company identifies, assesses, manages and reports on key risks to the organization and its objectives. Risks are ranked and executive ownership is established in each case. In addition, processes have been put in place to facilitate effective oversight by establishing risk appetite statements, key risk indicators, treatment action plans and dashboards for key risks identified. Key risks have been, and continue to be, embedded in the business and strategy discussions at the Board and/or Committee meetings. Annually, the senior leadership of the Company conducts a regular assessment of the Company's effectiveness in managing existing/known risks along with an identification and discussion of new and emerging risks.

COVID-19 Pandemic

The Company has an established task force with a mandate to monitor, assess and recommend mitigation strategies for impacts of the COVID-19 pandemic. The task force implemented a governance structure and protocols at the onset of the pandemic, which has been maintained throughout fiscal 2021 to ensure the business can continue to operate within the guidelines set forth by local, provincial and/or federal governments. Management's top priority continues to be the health and well-being of teammates, customers, and community health by preventing outbreaks in stores, warehouses and offices. Additional strategic risks, including labour availability due to pandemic absenteeism, as well as continuity of supply of goods for resale and pandemic supplies, such as personal protective equipment and sanitation supplies, have been mitigated to allow for continuous operation of the business. The Company continues to monitor these evolving risks. As the pandemic continues, there is still uncertainty related to the long-term impacts on the price of commodities and possible inflation of retail prices.

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, warehouse clubs, and online retailers, 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. A 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 effects 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, be focused on superior execution and have efficient, cost-effective operations. It also believes it must invest in its existing store and e-commerce network as well as its merchandising, marketing and operational execution to evolve its strategic platform to better meet the needs of consumers looking for food options. The Company updates branding strategies to remain relevant to customers. Failure to implement a marketing and branding strategy, including evaluating the strategic objectives and having people, processes and systems in place to execute the strategy, could adversely affect the Company. The consolidation of industry competitors may also lead to increased competition and loss of market share. 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.

Information Management, Cyber Security and Data Protection

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, external intrusions on information systems or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches or inappropriate disclosure, leaks of sensitive information or system disruptions. 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. In addition, sensitive personal health information is collected in order to provide pharmacy and home health care services to customers. 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 of operations.

The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is managed through a multi layered security approach involving cyber software tools based controls, policies, standards and procedures pertaining to security access, system development, change management and problem and incident management.

Technology

The Company operates extensive and complex information technology systems that are 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 is committed to improving its 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 functionality.

Product 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, and provision of pharmacy products and related services. Such liabilities may arise in relation to the storage, distribution, display and dispensing 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 and pharmaceutical 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 or pharmaceutical products. Such an event could materially affect Sobeys' financial performance. Procedures are in place to manage food and pharmaceutical 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 sale immediately.

Sobeys has food safety procedures and programs which address safe food handling and preparation standards. Similarly, provincial pharmacy standards and regulations are strictly followed, supported by robust internal policies and procedures to help mitigate risk along with a comprehensive reporting and follow up system is in place to quickly manage and contain any incidents. However, there can be no assurance that such measures will prevent the occurrence of any such product contamination or safety incident.

Supply Chain Disruptions Including Impacts of Climate Change
The Company is exposed to potential supply chain disruptions and errors that could result in obsolete merchandise or an excess or shortage of merchandise in its retail store network. The Company's distribution and supply chain could be negatively impacted by over reliance on key vendors, consolidation of facilities, disruptions due to severe weather conditions, natural disasters, climate change driven disruptions or other catastrophic events, and failure to manage costs and inventories. A failure to develop competitive new products, deliver high-quality products and 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, decreasing competitive advantage. A failure to maintain an efficient supply and logistics chain may adversely affect Sobeys' ability to sustain and meet growth objectives and maintain margins.

Business Continuity
The Company may be subject to unexpected or critical 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 to develop an integrated Business Continuity Management framework, including a comprehensive crisis plan. The Company is currently preparing for future waves of COVID-19 along with other pandemics that could occur. 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.

Talent, Attraction and Retention
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 to improve employee knowledge and to better serve its customers. The inability of the Company to properly attract, build talent and retain its employees with the appropriate skill set and failure to manage and monitor employees' performance may affect employee morale, overall reputation and 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; these plans are overseen by the Human Resources Committee and reviewed at least annually by the Board of Directors.

Franchisee and Affiliates Relationships
The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchisees and affiliates operate approximately 53% of Sobeys' retail stores. Sobeys relies on its franchisees, 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 agree to purchase merchandise from Sobeys. In addition, each store agrees 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.

Labour Union Relationships
A significant percentage of the Company's store and distribution centre workforce, particularly in Western Canada, is unionized. While overall the Company has and works to maintain good relationships with its employees and unions, the renegotiation of collective agreements always presents the risk of labour disruption. The Company has consistently stated it will accept the short-term costs of labour disruption to support a commitment to building and sustaining a competitive cost structure for the long term. Any prolonged or widespread work stoppages or other labour disputes could have an adverse impact on the Company's financial results.

Environmental
The Company operates its business locations across the country, including retail stores, distribution centres and fuel sites, and is subject to environmental risks associated with the contamination of such properties and facilities. 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. The Company also operates refrigeration equipment in its stores and distribution centres. These systems contain refrigerant gases which could be released if equipment fails or leaks.

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. Failure to properly manage any of these environmental risks could adversely affect the reputation, operations or financial performance of the Company.

The Company is subject to legislation that imposes liabilities on retailers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. There is a risk that the Company will be subject to increased costs associated with these laws.

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.

Drug Regulation, Legislation and Health Care Reform
The Company currently operates 350 in-store pharmacies and 73 freestanding pharmacies which are subject to federal, provincial, territorial and local legislation as well as regulations governing the sale of prescription drugs. Changes to reimbursement models used to fund prescription drugs, including the potential implementation of a national pharmacare model, or failure to comply with these laws and regulations could have a negative impact on financial performance, operations and reputation. These laws and regulations typically regulate prescription drug coverage for public plans including patient and product eligibility as well as elements of drug pricing and reimbursements including product cost, markup, dispensing fee, distribution allowances and in some provinces the ability to negotiate manufacturer allowances. In some provinces, legislation requires the selling price for prescription drugs to third-party insurance plans and cash customers to not be higher than the price established for the provincial drug plan. In addition to reimbursement, these laws and regulations govern drug approval and distribution, allowable packaging and labelling, marketing, handling, storage and disposal.

Provincial governments and private plans continue to implement measures to manage the cost of their drug plans, the impact of which varies by province and by plan. The Council of the Federation, a joint collaboration created by the provincial premiers, continues to work on cost reduction initiatives within the pharmaceutical sector many of which are extended to the private sector. The Patented Medicines Prices Review Board ("PMPRB") protects and informs Canadian consumers by regulating the prices of patented medicines sold in Canada, and by reporting on pharmaceutical trends. PMPRB is a quasi-judicial body that is part of the Health Portfolio and operates at arm's-length from the Minister of Health. The effective date of the amended Patented Medicines Regulations has been delayed and the updated PMPRB Guidelines will take effect July 1, 2021. In view of the evolving state of the Covid-19 pandemic, the operative date for assessing compliance with the Maximum List Price for Grandfathered and Gap medicines will be July 1, 2022. This pharmaceutical price compression will put pressure on pharmacy funding and pharmacy operating models, and it is anticipated that healthcare reform and regulation will continue to put pressure on pharmacy reimbursement through changes to patient and drug eligibility, prescription drug pricing including cost, dispensing fee, allowable markup, manufacturer allowance funding, distribution as well as potential restriction around customer inducements and expanded use of preferred providers. The Company has and will continue to identify opportunities to mitigate the negative impact these changes have on financial performance.

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 and the Company maintains an anonymous, confidential whistle blowing hotline. There can be no assurance that these measures will be effective to prevent violations of law or unethical business practices.

Social
Social reform movements bring public awareness to issues through protests and/or media campaigns. Issues that relate to the Company's business include, but are not limited to, diversity, animal welfare, local and ethical sourcing, nutritional labelling and human rights. Oversight of the Company's social strategies and issues management is through the Executive Committee and the Board of Directors. Ineffective action or inaction on social reform matters could adversely affect the Company's reputation or financial performance.

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 the ability to expand existing stores are 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.

Loyalty Program
The Company utilizes a third-party loyalty program to provide additional value to customers. The decisions made by the third party can adversely affect the reputation and financial operations of the Company. Promotional and other activities related to possible changes in the loyalty programs must be effectively managed and coordinated to ensure a positive customer perception. Failure to effectively manage and communicate changes to the loyalty program may negatively impact the Company's reputation.

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 costs of product materialize in excess of expectations and should Sobeys not be able to offset such cost inflation through higher retail prices or other cost savings, there could be a negative impact on sales and margin performance.

Free Trade
The Company is susceptible to risks associated with trade relationships between Canada and other countries including the United States. Changes to trade agreements and tariffs between Canada and other countries could increase the costs of certain products and some items could become unavailable thereby having a negative impact on customer experience. While the Company can mitigate these risks to a certain extent through the use of alternative suppliers, international trade by its nature can be unpredictable and the Company may not be able to fully mitigate the negative impact of changes in trade agreements and tariffs.

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 long-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. Any increase in the applicable interest rates could increase interest expense and have a material adverse effect on the Company's cash flow and results of operations. There can be no assurance that risk management strategies, if any, undertaken by the Company will be effective.

Utility and Fuel Prices
The Company is a significant consumer of electricity, other utilities and fuel. The costs of 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.

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 non-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.

Credit Rating
There can be no assurance that the credit ratings assigned to the various debt instruments issued by Sobeys 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 ratings 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 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.

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.

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, the Great British pound ("GBP") and the United States dollar ("USD"). USD purchases of products represent approximately 4.2% of Sobeys' total annual purchases. Euro and GBP purchases are primarily 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.

Pension Plans

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

The Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 12% of the employees of Sobeys and its franchisees and affiliates participate in these plans. The responsibility of Sobeys, its franchisees, and affiliates to make contributions to these plans is limited to the amounts established in the collective bargaining agreements and other associated agreements, however poor performance of these plans could have a negative effect on the participating 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 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 expose the Company to increased interest expense on borrowings at variable rates thereby 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.

Insurance

The Company and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and purchase 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.

Subsequent Event

Subsequent to the fiscal year ended May 1, 2021, on May 19, 2021, Crombie REIT announced it had closed a bought-deal public offering of units at a price of $16.60 per unit for aggregate proceeds of $100.0 million. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 million of Class B LP units to maintain a 41.5% interest in Crombie REIT.

Subsequent to the fiscal year ended May 1, 2021, on May 10, 2021, the Company, through a wholly-owned subsidiary closed the transaction to acquire 51% of the business of Longo's as discussed in the "Business Update" section of this MD&A.

Designation for Eligible Dividends

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

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

Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this MD&A that do not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures and metrics presented by other publicly traded companies. Management believes that certain of these measures and metrics, including gross profit and EBITDA are important indicators of the Company'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.

Financial Measures

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

- Gross profit is calculated as sales less cost of sales. Management believes cost of sales is a useful metric to monitor profitability on a product-level basis. Gross profit represents a supplementary metric to assess underlying operating performance and profitability.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as net earnings, before finance costs (net of finance income), income tax expense, depreciation and amortization of intangibles. Management believes EBITDA represents a supplementary metric to assess profitability and measure the Company's underlying ability to generate liquidity through operating cash flows.

The following table reconciles net earnings to EBITDA:

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 1, 2021**	May 2, 2020	**May 1, 2021**	May 2, 2020
Net earnings	**$ 183.3**	$ 188.8	**$ 764.2**	$ 612.8
Income tax expense	**45.0**	66.5	**265.9**	219.9
Finance costs, net	**66.7**	69.0	**269.4**	279.1
Operating income	**295.0**	324.3	**1,299.5**	1,111.8
Depreciation	**200.2**	186.7	**768.7**	709.1
Amortization of intangibles	**19.2**	16.8	**75.6**	71.5
EBITDA	**$ 514.4**	$ 527.8	**$ 2,143.8**	$ 1,892.4

- Management calculates interest expense as interest expense on financial liabilities measured at amortized cost and interest expense on lease liabilities. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting finance income.

The following table reconciles finance costs, net to interest expense:

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 1, 2021**	May 2, 2020	**May 1, 2021**	May 2, 2020
Finance costs, net	**$ 66.7**	$ 69.0	**$ 269.4**	$ 279.1
Plus: finance income, excluding interest income on lease receivables	**1.7**	3.7	**9.8**	12.1
Less: pension finance costs, net	**(2.1)**	(2.2)	**(8.1)**	(8.9)
Less: accretion expense on provisions	**(0.5)**	(0.3)	**(2.3)**	(3.0)
Interest expense	**$ 65.8**	$ 70.2	**$ 268.8**	$ 279.3

- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less acquisitions of property, equipment, investment property and intangibles. 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 statements of cash flows, and is presented in the "Free Cash Flow" section of this MD&A.
- Funded debt is all interest-bearing debt, which includes bank loans, bankers' acceptances, long-term debt and long-term lease liabilities. Management believes that funded debt represents the most relevant 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 net financial obligations.
- Net total capital is calculated as funded debt plus shareholders' equity, net of non-controlling interest, less cash and cash equivalents.

The following table reconciles the Company's funded debt, net funded debt and net total capital to GAAP measures as reported on the balance sheets as at May 1, 2021, May 2, 2020 and May 4, 2019, respectively:

($ in millions)	May 1, 2021	May 2, 2020	May 4, 2019
Long-term debt due within one year	**$ 46.5**	$ 570.0	$ 36.5
Long-term debt	**1,178.8**	1,105.2	1,984.4
Lease liabilities due within one year	**490.5**	466.2	–
Long-term lease liabilities	**5,417.6**	4,800.0	–
Funded debt	**7,133.4**	6,941.4	2,020.9
Less: cash and cash equivalents	**(890.5)**	(1,008.4)	(553.3)
Net funded debt	**6,242.9**	5,933.0	1,467.6
Total shareholders' equity, net of non-controlling interest	**4,372.7**	3,924.6	4,003.3
Net total capital	**$ 10,615.6**	$ 9,857.6	$ 5,470.9

Financial Metrics

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

- Same-store sales are sales from stores in the same location in both reporting periods. Management believes same-store sales represents a supplementary metric to assess sales trends as it removes the effect of the opening and closure of stores.
- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of profitability and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.
- EBITDA margin is EBITDA divided by sales. Management believes that EBITDA margin is an important indicator of performance and can help management, analysts and investors assess the competitive landscape, promotional environment and cost structure of the industry in which the Company operates. An increasing percentage indicates higher EBITDA as a percentage of sales.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity. Management believes return on equity represents a supplementary measure to assess Sobeys' profitability.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that the net funded debt to net total capital ratio represents a measure upon which the Company's changing capital structure can be analyzed over time. An increasing ratio would indicate that the Company is using an increasing amount of debt in its capital structure.
- 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 1, 2021, May 2, 2020 and May 4, 2019:

($ in millions, except per share information)	May 1, 2021	May 2, 2020	May 4, 2019
Shareholders' equity, net of non-controlling interest	**$ 4,372.7**	$ 3,924.6	$ 4,003.3
Shares outstanding (basic)	**268.3**	270.4	271.9
Book value per common share	**$ 16.30**	$ 14.51	$ 14.72

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

Approved by Board of Directors: June 22, 2021
Stellarton, Nova Scotia, Canada

Consolidated Financial Statements

May 1, 2021

Management's Statement of Responsibility for Financial Reporting

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or Generally Accepted Accounting Principles and reflect management's best estimates and judgments.

All other financial information in the report is consistent with that contained in the consolidated financial statements.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the consolidated financial statements, the safeguarding of Company assets, and the prevention and detection of fraudulent financial reporting.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and composed solely of directors who are unrelated to, and independent of, the Company, meet regularly with financial management and external auditors to satisfy itself as to reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual consolidated financial statements to be issued to shareholders.

The external auditors have full and free access to the Audit Committee.

signed "Michael Medline"

Michael Medline
President and Chief Executive Officer

June 22, 2021

signed "Michael Vels"

Michael Vels
Chief Financial Officer

June 22, 2021

Independent Auditor's Report

To the Shareholders of Empire Company Limited

OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Empire Company Limited and its subsidiaries (together, the Company) as at May 1, 2021 and May 2, 2020, and its financial performance and its cash flows for the 52 weeks ended May 1, 2021 and May 2, 2020 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at May 1, 2021 and May 2, 2020;
- the consolidated statements of earnings for the 52 weeks ended May 1, 2021 and May 2, 2020;
- the consolidated statements of comprehensive income for the 52 weeks ended May 1, 2021 and May 2, 2020;
- the consolidated statements of changes in shareholders' equity for the 52 weeks ended May 1, 2021 and May 2, 2020;
- the consolidated statements of cash flows for the 52 weeks ended May 1, 2021 and May 2, 2020; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the 52 weeks ended May 1, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Recognition of vendor allowances *Refer to note 2 (f) – Basis of preparation (Vendor allowances) and note 3 (x) – Summary of significant accounting policies (Vendor allowances) to the consolidated financial statements.* The Company receives allowances from certain vendors whose products are purchased for resale. Included in these vendor agreements are volume-related allowances, purchase discounts, listing fees and other allowances. The Company recognizes these vendor allowances as a reduction of cost of sales and related inventories. The number and variety of the vendor agreements can make it complex for management to determine the performance obligations associated with the vendor allowances and the related recognition as a reduction of cost of sales and related inventories. As a result, management judgment is required. We considered this a key audit matter due to the number of vendor allowance transactions and varying terms of the vendor agreements, making the recognition of vendor allowances more complex, requiring management judgment. This resulted in a high degree of auditor judgment and effort in performing procedures and evaluating evidence.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of relevant controls relating to the recognition of vendor allowances, including management's approval and recording of vendor agreements and the monitoring of the aging of vendor allowance receivables. • For a sample of vendor allowance transactions recognized during the year, evaluated the reasonableness of management's determination that performance obligations associated with vendor allowances have been met by: » Evaluating the terms in vendor agreements and agreeing amounts recorded to vendor agreements, internal supporting documents, corresponding cash receipts/net settlements and any related correspondence with vendors. • For a sample of vendor allowance receivables at the balance sheet date, evaluated the reasonableness of management's determination that performance obligations associated with vendor allowances have been met by: » Evaluating the terms in vendor agreements and agreeing amounts recorded to vendor agreements, internal supporting documents and any related correspondence with vendors and, as applicable, recalculating the amount recognized. » Obtaining an external confirmation from a vendor in respect of the vendor allowance receivable at the balance sheet date; and (ii) tracing amounts to cash receipts/net settlements after the balance sheet date, where applicable. » Considering outstanding vendor claims at and after the balance sheet date, where applicable. • Assessed the aging of vendor allowance receivables at the balance sheet date. • Considered credit notes issued after the balance sheet date.

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matter	How our audit addressed the key audit matter
Valuation of retail inventories *Refer to note 2 (a) – Basis of preparation (Inventories), note 3 (e) – Summary of significant accounting policies (Inventories) and note 4 – Inventories to the consolidated financial statements.* As at May 1, 2021, the Company held inventories of $1,500.1 million, which included retail inventories. The Company has more than 1,500 stores across Canada. Inventories are valued at the lower of cost and estimated net realizable value. The cost of retail inventories is determined using weighted average cost or the retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. The cost of inventories is reduced by the value of allowances received from vendors. Significant estimation and judgment is required by management in the determination of (i) estimated inventory provisions associated with vendor allowances and internal charges; (ii) estimated shrinkage occurring between the last physical inventory count and the balance sheet date; and (iii) inventories valued at retail and adjusted to cost. We considered this a key audit matter due to the magnitude of the inventories balance, the number of stores, the volume of transactions between the last physical inventory count and the balance sheet date and the related significant estimations and judgments required by management, and the audit effort involved in testing the retail inventories at the balance sheet date.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of relevant controls relating to the inventory valuation process. • Tested the operating effectiveness of relevant controls relating to the physical inventory count process at the stores. • Observed the physical inventory count process for a sample of stores during the year and performed independent test counts. • For a sample of retail inventory items counted at weighted average cost value, traced the underlying data at the physical inventory count date to recent purchase invoices. • For a sample of retail inventory items counted at retail value, traced the underlying data at the physical inventory count date to recent retail selling prices. • Evaluated the reasonableness of the profit margins applied to retail inventories to adjust inventories valued at retail to cost by comparing profit margin rates applied to historical profit margins on a sample basis. • For independent test counts performed on retail inventories, tested the underlying data used in management's roll-forward schedule from the last physical inventory count to the balance sheet date and recalculated the mathematical accuracy thereof. • Tested how management estimated shrinkage and evaluated the reasonableness of shrinkage applied to inventories at the balance sheet date. • Recalculated the adjustment to inventories at the balance sheet date for vendor allowances and internal charges.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Donald M. Flinn.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Halifax, Nova Scotia
June 22, 2021

Consolidated Balance Sheets

As At (in millions of Canadian dollars)		May 1, 2021		May 2, 2020
ASSETS				
Current				
Cash and cash equivalents	$	**890.5**	$	1,008.4
Receivables		**547.0**		535.3
Inventories (Note 4)		**1,500.1**		1,489.4
Prepaid expenses		**101.0**		113.1
Leases and other receivables (Note 5)		**91.0**		68.4
Income taxes receivable		**60.5**		34.8
Assets held for sale (Note 6)		**3.4**		6.1
		3,193.5		3,255.5
Leases and other receivables (Note 5)		**544.2**		580.8
Investments, at equity (Note 7)		**570.1**		607.5
Other assets (Note 8)		**22.3**		28.7
Property and equipment (Note 9)		**2,977.6**		2,883.4
Right-of-use assets (Note 10)		**4,678.9**		4,033.5
Investment property (Note 11)		**158.6**		114.0
Intangibles (Note 12)		**976.0**		968.8
Goodwill (Note 13)		**1,577.8**		1,573.7
Deferred tax assets (Note 14)		**474.9**		587.0
	$	**15,173.9**	$	14,632.9
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	**2,874.1**	$	2,951.9
Income taxes payable		**22.1**		23.2
Provisions (Note 15)		**55.0**		48.7
Long-term debt due within one year (Note 16)		**46.5**		570.0
Lease liabilities due within one year (Note 10)		**490.5**		466.2
		3,488.2		4,060.0
Provisions (Note 15)		**46.5**		54.7
Long-term debt (Note 16)		**1,178.8**		1,105.2
Long-term lease liabilities (Note 10)		**5,417.6**		4,800.0
Other long-term liabilities (Note 17)		**100.1**		97.5
Employee future benefits (Note 18)		**254.0**		304.1
Deferred tax liabilities (Note 14)		**190.7**		197.5
		10,675.9		10,619.0
SHAREHOLDERS' EQUITY				
Capital stock (Note 19)		**1,969.8**		2,013.2
Contributed surplus		**25.2**		23.2
Retained earnings		**2,363.1**		1,872.1
Accumulated other comprehensive income		**14.6**		16.1
		4,372.7		3,924.6
Non-controlling interest		**125.3**		89.3
		4,498.0		4,013.9
	$	**15,173.9**	$	14,632.9

See accompanying notes to the consolidated financial statements.

On Behalf of the Board

signed "James Dickson"

James Dickson
Director

signed "Michael Medline"

Michael Medline
Director

Consolidated Statements of Earnings

52 Weeks Ended (in millions of Canadian dollars, except share and per share amounts)		May 1, 2021		May 2, 2020
Sales	**$**	**28,268.3**	$	26,588.2
Other income (Note 20)		**53.0**		69.2
Share of earnings from investments, at equity (Note 7)		**51.4**		71.8
Operating expenses				
Cost of sales		**21,069.0**		19,954.9
Selling and administrative expenses		**6,004.2**		5,662.5
Operating income		**1,299.5**		1,111.8
Finance costs, net (Note 22)		**269.4**		279.1
Earnings before income taxes		**1,030.1**		832.7
Income tax expense (Note 14)		**265.9**		219.9
Net earnings	**$**	**764.2**	$	612.8
Earnings for the year attributable to:				
Non-controlling interest	**$**	**62.7**	$	29.3
Owners of the Company		**701.5**		583.5
	$	**764.2**	$	612.8
Earnings per share (Note 23)				
Basic	**$**	**2.61**	$	2.16
Diluted	**$**	**2.60**	$	2.15
Weighted average number of common shares outstanding, in millions (Note 23)				
Basic		**268.3**		270.4
Diluted		**269.3**		271.4

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

52 Weeks Ended (in millions of Canadian dollars)		May 1, 2021		May 2, 2020
Net earnings	$	**764.2**	$	612.8
Other comprehensive (loss) income				
Items that will be reclassified subsequently to net earnings				
Unrealized losses on derivatives designated as cash flow hedges (Note 14)		**–**		(0.9)
Reclassification of gains on derivatives designated as cash flow hedges to earnings		**–**		(0.2)
Share of other comprehensive income of investments, at equity (Note 14)		**0.6**		1.2
Exchange differences on translation of foreign operations (Note 14)		**(2.1)**		1.3
		(1.5)		1.4
Items that will not be reclassified subsequently to net earnings				
Actuarial gains (losses) on defined benefit plans (Notes 14 and 18)		**31.2**		(21.1)
Total comprehensive income	$	**793.9**	$	593.1
Total comprehensive income for the year attributable to:				
Non-controlling interest	$	**62.7**	$	29.3
Owners of the Company		**731.2**		563.8
	$	**793.9**	$	593.1

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in millions of Canadian dollars)	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Attributable to Owners of the Company	Non-controlling Interest	Total Equity
Balance as at May 5, 2019	$ 2,042.6	$ 25.2	$ 14.7	$ 1,488.8	$ 3,571.3	$ 79.7	$ 3,651.0
Dividends declared on common shares	–	–	–	(129.7)	(129.7)	–	(129.7)
Equity based compensation, net	3.8	(2.0)	–	–	1.8	–	1.8
Repurchase of capital stock (Note 19)	(35.3)	–	–	(64.7)	(100.0)	–	(100.0)
Shares held in trust, net (Note 19)	2.1	–	–	–	2.1	–	2.1
Capital transactions with structured entities	–	–	–	–	–	(17.0)	(17.0)
Transactions with owners	(29.4)	(2.0)	–	(194.4)	(225.8)	(17.0)	(242.8)
Net earnings	–	–	–	583.5	583.5	29.3	612.8
Revaluation of put options	–	–	–	15.3	15.3	(2.7)	12.6
Other comprehensive loss	–	–	1.4	(21.1)	(19.7)	–	(19.7)
Total comprehensive income for the year	–	–	1.4	577.7	579.1	26.6	605.7
Balance at May 2, 2020	$ 2,013.2	$ 23.2	$ 16.1	$ 1,872.1	$ 3,924.6	$ 89.3	$ 4,013.9
Dividends declared on common shares	**–**	**–**	**–**	**(139.4)**	**(139.4)**	**–**	**(139.4)**
Equity based compensation, net	**4.1**	**2.0**	**–**	**–**	**6.1**	**–**	**6.1**
Repurchase of capital stock (Note 19)	**(49.8)**	**–**	**–**	**(103.8)**	**(153.6)**	**–**	**(153.6)**
Shares held in trust, net (Note 19)	**2.3**	**–**	**–**	**–**	**2.3**	**–**	**2.3**
Capital transactions with structured entities	**–**	**–**	**–**	**–**	**–**	**(22.6)**	**(22.6)**
Transactions with owners	**(43.4)**	**2.0**	**–**	**(243.2)**	**(284.6)**	**(22.6)**	**(307.2)**
Net earnings	**–**	**–**	**–**	**701.5**	**701.5**	**62.7**	**764.2**
Revaluation of put options	**–**	**–**	**–**	**1.5**	**1.5**	**(4.1)**	**(2.6)**
Other comprehensive (loss) income	**–**	**–**	**(1.5)**	**31.2**	**29.7**	**–**	**29.7**
Total comprehensive (loss) income for the year	**–**	**–**	**(1.5)**	**734.2**	**732.7**	**58.6**	**791.3**
Balance at May 1, 2021	**$ 1,969.8**	**$ 25.2**	**$ 14.6**	**$ 2,363.1**	**$ 4,372.7**	**$ 125.3**	**$ 4,498.0**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

52 Weeks Ended (in millions of Canadian dollars)	May 1, 2021	May 2, 2020
Operations		
Net earnings	$ 764.2	$ 612.8
Adjustments for:		
Depreciation	768.7	709.1
Income tax expense	265.9	219.9
Finance costs, net (Note 22)	269.4	279.1
Amortization of intangibles	75.6	71.5
Net gain on disposal of assets and lease terminations	(37.1)	(51.7)
Impairment of non-financial assets, net	1.6	1.9
Amortization of deferred items	2.2	3.2
Equity in earnings of other entities, net of distributions received	35.7	28.0
Employee future benefits	(8.4)	(9.3)
Decrease in long-term provisions	(10.5)	(17.7)
Equity based compensation	11.8	6.2
Net change in non-cash working capital	(80.9)	279.3
Income taxes paid, net	(198.6)	(42.9)
Cash flows from operating activities	1,859.6	2,089.4
Investment		
Property, equipment and investment property purchases	(566.3)	(548.8)
Additions to intangibles	(92.8)	(69.0)
Proceeds on disposal of assets and lease terminations	113.7	193.1
Leases and other receivables, net	(30.2)	20.6
Other assets and other long-term liabilities	4.6	4.1
Business acquisitions (Note 24)	(15.9)	(19.2)
Payments received for finance subleases	79.1	76.4
Interest received	5.5	8.0
Increase in equity investments	–	(41.5)
Cash flows used in investing activities	(502.3)	(376.3)
Financing		
Issuance of long-term debt	86.4	80.8
Repayments of long-term debt	(69.4)	(85.2)
Repayments on credit facilities, net	(467.8)	(313.1)
Interest paid	(60.4)	(83.5)
Payments of lease liabilities (principal portion)	(420.1)	(392.1)
Payments of lease liabilities (interest portion)	(228.3)	(218.2)
Repurchases of Non-Voting Class A shares	(153.6)	(100.0)
Dividends paid, common shares	(139.4)	(129.7)
Non-controlling interest	(22.6)	(17.0)
Cash flows used in financing activities	(1,475.2)	(1,258.0)
(Decrease) increase in cash and cash equivalents	(117.9)	455.1
Cash and cash equivalents, beginning of year	1,008.4	553.3
Cash and cash equivalents, end of year	$ 890.5	$ 1,008.4

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

May 1, 2021 (in millions of Canadian dollars, except share and per share amounts)

1. Reporting entity

Empire Company Limited ("Empire" or the "Company") is a Canadian company whose key businesses are food retailing and related real estate. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The consolidated financial statements for the year ended May 1, 2021 include the accounts of Empire, all subsidiary companies, including 100% owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and its joint ventures are accounted for using the equity method. As at May 1, 2021, the Company's business operations were conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 27, Segmented Information. The Company's Food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's first quarter. The Company's fiscal year ends on the first Saturday in May.

2. Basis of preparation

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on June 22, 2021.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: certain financial instruments (including derivatives) at fair value through profit and loss ("FVTPL") and cash settled stock-based compensation plans. Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

USE OF ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported on the consolidated financial statements and accompanying notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Company has applied judgment in its assessment of the appropriateness of consolidation of SEs, the appropriateness of equity accounting for its investments in associates and joint ventures, discount rate, classification of financial instruments, the level of componentization of property and equipment, the determination of cash generating units ("CGUs"), the identification of indicators of impairment for property and equipment, investment property, intangible assets and goodwill, the recognition and measurement of assets acquired and liabilities assumed, the measurement of right-of-use assets and lease liabilities, vendor allowances and the recognition of provisions and non-controlling interest put and call options.

Since the fourth quarter of fiscal 2020, the novel coronavirus pandemic has had, and continues to have, a significant impact on the Company. The Company's financial results show increased sales, driven by increased demand for food retailing products since the onset of the crisis. Additional costs were incurred as a result of the pandemic, including compensation incentives for employees, combined with additional cost for safety and sanitization measures for customers and employees. The full economic impact the pandemic will have on the Company remains uncertain and is dependent on the duration of the virus.

Estimates, judgments and assumptions that could have a significant impact on the amounts recognized in the consolidated financial statements are summarized below. Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from these estimates.

(A) INVENTORIES

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation and judgment is required in the determination of (i) estimated inventory provisions associated with vendor allowances and internal charges; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) inventories valued at retail and adjusted to cost.

(B) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assumptions are used when management assesses impairment of non-financial assets such as investments in associates and joint ventures, goodwill, intangible assets, property and equipment, right-of-use assets and investment property. Management estimates the recoverable amount of each asset or CGU based on the higher of value-in-use ("VIU") and fair value less costs of disposal ("FVLCD"). The VIU calculations are based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future growth of profits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Actual results could vary from these estimates which may cause significant adjustments to the Company's non-financial assets in subsequent reporting periods. Impairment losses and reversals are disclosed on the consolidated financial statements in Notes 9, 10, 11, 12 and 13.

(C) LEASES

Estimates and judgment are used in the measurement of lease liabilities and right-of-use assets. Key assumptions include determination of discount rates and lease term expectations. Note 10 details the right-of-use assets and lease liabilities.

(D) INCOME TAXES

Assumptions are applied when management assesses the timing and reversal of temporary differences and estimates the Company's future earnings to determine the recognition of current and deferred income taxes. Judgments are also made by management when interpreting the tax rules in jurisdictions where the Company operates. Note 14 details the current and deferred income tax expense and deferred tax assets and liabilities.

(E) PROVISIONS

Estimates and assumptions are used to calculate provisions when the Company estimates the expected future cash flows relating to the obligation and applies an appropriate discount rate.

(F) VENDOR ALLOWANCES

The Company has supply agreements with varying terms for purchase of goods for resale, some of which include volume related allowances, purchase discounts, listing fees, and other discounts and allowances. Estimates and judgment are required when the receipt of allowances is conditional on the Company achieving specified performance conditions associated with the purchase of product and determining if these have been met. These include estimates of achieving agreed volume targets.

(G) EMPLOYEE FUTURE BENEFITS

Accounting for the costs of defined benefit pension plans and other post-employment benefits requires the use of several assumptions. Pension obligations are based on current market conditions and actuarial determined data such as medical cost trends, mortality rates and future salary increases. A sensitivity analysis and more detail of key assumptions used in measuring the pension and post-employment benefit obligations are disclosed in Note 18.

(H) BUSINESS ACQUISITIONS

For business acquisitions, the Company applies judgment on the recognition and measurement of assets acquired 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 after initial recognition would affect the measurement of goodwill.

3. Summary of significant accounting policies

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all periods presented.

(A) BASIS OF CONSOLIDATION

The financial statements for the Company include the accounts of the Company and all of its subsidiary undertakings up to the reporting date. Subsidiaries, including SEs, are all entities the Company controls. Control exists when the Company has existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The Company reassesses control on an ongoing basis. All subsidiaries have a reporting date within six weeks of the Company's reporting date. Where necessary, adjustments have been made to reflect transactions between the reporting dates of the Company and its subsidiaries.

SEs are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. SEs are consolidated if, based on an evaluation of the substance of its relationship with the Company, the Company concludes that it controls the SE. SEs controlled by the Company were established under terms that impose certain limitations on the decision-making powers of the SEs' management and that results in the Company receiving the majority of the benefits related to the SEs' operations and net assets, being exposed to the majority of risks incident to the SEs' activities, and retaining the majority of the residual or ownership risks related to the SEs or their assets.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

Earnings or losses and other comprehensive income or losses of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interest represents the portion of a subsidiary's earnings and losses and net assets that is not held by the Company. If losses in a subsidiary applicable to a non-controlling interest exceed the non-controlling interest in the subsidiary's equity, the excess is allocated to the non-controlling interest except to the extent that the majority has a binding obligation and is able to cover the losses, except as discussed in Note 3(j).

(B) BUSINESS ACQUISITIONS

Business acquisitions are accounted for by applying the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded on the financial statements prior to acquisition. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business combinations", are recognized at their fair value at the acquisition date, except for: (i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements which are recognized and measured in accordance with International Accounting Standard ("IAS") 12, "Income taxes", and IAS 19, "Employee benefits", respectively; and (ii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, "Non-current assets held for sale and discontinued operations", which are measured and recognized at fair value less costs to sell. Goodwill arising on acquisition is recognized as an asset and represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of the acquisition. Any excess of identifiable net assets over the acquisition cost is recognized in net earnings or loss immediately after acquisition. Transaction costs related to the acquisition are expensed as they are incurred.

(C) FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign operations with a different functional currency than the Company are translated at exchange rates in effect at each reporting period end date. The revenues and expenses are translated at average exchange rates for the period. Cumulative gains and losses on translation are shown in accumulated other comprehensive income or loss.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each reporting period end date. Non-monetary items are translated at the historical exchange rate at the date of transaction. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income or loss. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period.

(D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash and guaranteed investments with a maturity less than 90 days at date of acquisition, as well as, highly liquid guaranteed investments that are redeemable in cash on demand without penalty.

(E) INVENTORIES

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using weighted average cost or the retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

(F) INCOME TAXES

Tax expense recognized in net earnings or loss comprises the sum of deferred income tax and current income tax not recognized in other comprehensive income or loss.

Current income tax assets and liabilities are comprised of claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is the tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantively enacted at the balance sheet date. It includes adjustments for tax expected to be payable or recoverable in respect of previous periods. Where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on the most likely amount of the liability or recovery. The calculation of current income tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred income taxes are calculated using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities and their related tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business acquisition or affects tax or accounting profit. The deferred tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the amounts are expected to settle. Deferred tax assets are only recognized to the extent that it is probable that they will be able to be utilized against future taxable income. The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be used without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by management based on the specific facts and circumstances.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of income or expense in net earnings or loss, except where they relate to items that are recognized in other comprehensive income or loss (such as the unrealized gains and losses on cash flow hedges) or directly in equity.

(G) ASSETS HELD FOR SALE

Certain property and equipment have been listed for sale and reclassified as assets held for sale on the consolidated balance sheets. These assets are expected to be sold within a 12-month period. Assets held for sale are valued at the lower of carrying value and fair value less costs to sell.

(H) INVESTMENTS IN ASSOCIATES

Associates are those entities over which the Company is able to exert significant influence but which it does not control and which are not interests in a joint venture. Control is reassessed on an ongoing basis. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to the acquisition method as explained above. However, any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investments in associates.

All subsequent changes to the Company's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the earnings or losses generated by the associate are reported within share of earnings from investments, at equity on the Company's consolidated statements of earnings or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from earnings of the associate or items recognized directly in the associate's equity are recognized in earnings or losses or equity of the Company, as applicable. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports earnings, the Company resumes recognizing its share of those earnings only after its share of the earnings exceeds the accumulated share of losses that had previously not been recognized.

Unrealized gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a Company perspective.

At each reporting period end date, the Company assesses whether there are any indicators of impairment in its investment in associates. For investments in publicly traded entities, carrying value of the investment is compared to the current market value of the investment based on its quoted price at the balance sheet date. For entities which are not publicly traded, VIU of the investment is determined by estimating the Company's share of the present value of the estimated cash flows expected to be generated by the investee. If impaired, the carrying value of the Company's investment is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and VIU.

In the process of measuring future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's investments in associates in the subsequent financial years.

Each of the associates identified by the Company has a reporting year end of December 31. For purposes of the Company's consolidated year end financial statements, each of the associates' results are included based on financial statements prepared as at March 31, with any changes occurring between March 31 and the Company's year end that would materially affect the results being taken into account.

(I) INVESTMENTS IN JOINT VENTURES

Investments in joint ventures are joint arrangements whereby the Company and the other parties to the arrangements have joint control and therefore have rights to the net assets of the arrangement. Investments in joint ventures are initially recognized at cost and subsequently accounted for using the equity method.

(J) FINANCIAL INSTRUMENTS

Financial instruments are recognized on the consolidated balance sheets when the Company becomes a party to the contractual provisions of a financial instrument. The classification and measurement categories for financial assets are amortized cost, fair value through other comprehensive income ("FVOCI"), and FVTPL. Financial assets that are not designated as FVTPL on initial recognition are classified and measured at amortized cost if (i) they are held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Debt investments that are not designated as FVTPL on initial recognition are classified and measured at FVOCI if (i) they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Equity investments held for trading are classified and measured at FVTPL. Financial assets not classified at amortized cost or FVOCI are classified and measured at FVTPL. The classification and measurement categories for financial liabilities are amortized cost and FVTPL.

The Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification and Measurement
Cash and cash equivalents	Amortized cost
Receivables	Amortized cost
Leases and other receivables	Amortized cost
Derivative financial assets and liabilities	FVTPL
Non-derivative other assets	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Other long-term liabilities	Amortized cost

Sobeys has entered into put and call options with non-controlling interest shareholders of certain subsidiary companies such that the Company may acquire their shareholdings under certain conditions on or after the exercise date. As a result, the Company recognizes a financial liability at the present value of the amount payable on exercise of the applicable put option. Remeasurement adjustments are recorded in retained earnings. At the end of each reporting period, non-controlling interests for these subsidiaries that have been recognized, including the earnings attributable to these non-controlling interests, are derecognized against the related non-controlling interest liability immediately before its period-end revaluation.

Impairment of financial assets are based on expected credit losses ("ECL"). The Company recognizes loss allowances on its trade receivables based on lifetime ECLs for those assets measured at amortized cost. Loss allowances are recognized on leases and other receivables for which the credit risk has not increased significantly since initial recognition based on the 12-month ECL. Where there is a significant increase in the credit risk of leases and other receivables subsequent to initial recognition, the Company recognizes loss allowances based on lifetime ECLs. The Company considers past events, current conditions, and reasonable and supportable forecasts affecting collectability when determining whether the credit risk of a financial asset has increased significantly since initial recognition, or in estimating lifetime ECLs.

(K) HEDGES

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and energy prices. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income or loss. To the extent the change in fair value of the derivative does not completely offset the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings or loss. Amounts accumulated in other comprehensive income or loss are reclassified to net earnings or loss when the hedged item is recognized in net earnings or loss. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income or loss relating to the hedge is carried forward until the hedged item is recognized in net earnings or loss. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income or loss is immediately reclassified to net earnings or loss.

Financial derivatives assigned as part of a cash flow hedging relationship are classified on the consolidated balance sheets as either an other asset or other long-term liability as required based on their fair value determination.

Significant derivatives include the following:

(i) Foreign currency forward contracts and foreign currency swaps for the primary purpose of limiting exposure to exchange rate fluctuations relating to the purchase of goods or expenditures denominated in foreign currencies. Certain contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(ii) Electricity forward contracts for the primary purpose of limiting exposure to fluctuations in the market prices of electricity. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(iii) Natural gas forward contracts for the primary purpose of limiting exposure to fluctuations in the market prices of natural gas. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(L) PROPERTY AND EQUIPMENT

Owner-occupied land, buildings, equipment, leasehold improvements and assets under construction are carried at acquisition cost less accumulated depreciation and impairment losses.

When significant parts of property and equipment have different useful lives, they are accounted for as separate components. Depreciation is recorded on a straight-line basis from the time the asset is available or when assets under construction become available for use over the estimated useful lives of the assets as follows:

Buildings	10 – 40 years
Equipment	3 – 20 years
Leasehold improvements	Lesser of lease term and 7 – 20 years

Depreciation is included within selling and administrative expenses on the consolidated statements of earnings. Material residual value estimates and estimates of useful life are reviewed and updated as required, or annually at a minimum.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings or loss within other income. If the sale is to a Company's investment, at equity, a portion of the gain or loss is deferred and reduces the carrying value of the investment.

(M) INVESTMENT PROPERTY

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both, rather than for the principal purpose of the Company's operating activities. Investment properties are accounted for using the cost model. The depreciation policies for investment property are consistent with those described for property and equipment.

Any gain or loss arising from the sale of an investment property is immediately recognized in net earnings or loss, unless the sale is to an investment, at equity, in which case a portion of the gain or loss is deferred and would reduce the carrying value of the Company's investment. Rental income and operating expenses from investment property are reported within other income and selling and administrative expenses, respectively, on the consolidated statements of earnings.

(N) LEASES

(i) The Company as a lessee

The Company recognizes a right-of-use asset and corresponding lease liability at the commencement date. The commencement date is the date in which the lessor makes the asset available for use by the Company. Lease payments for short-term leases or variable payments that do not depend on an index or a rate are recognized in selling and administrative expenses.

Lease liabilities reflect the present value of fixed lease payments and variable lease payments that are based on an index or a rate or subject to fair market renewal amounts expected to be payable by the lessee over the lease term. Lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. Where applicable, lease liabilities will include the purchase option exercise price if the Company is reasonably certain to exercise that option, termination penalties if the lease term also reflects the termination option and amounts expected to be payable under a residual value guarantee. Subsequent to initial measurement the Company measures lease liabilities on an amortized cost basis. Lease liabilities are remeasured when there is a modification to the lease. Lease payments are discounted using the interest rate implicit in the lease, or if that rate cannot be determined, the lessee's incremental borrowing rate at the lease inception date or the modification date as applicable. Interest expense is recognized within finance costs, net on the consolidated statements of earnings.

Right-of-use assets are measured at the initial amount of the lease liabilities plus any initial direct costs, lease payments made at or before the commencement date less lease incentives received and restoration costs. Subsequent to initial measurement, the Company applies the cost model to the right-of-use assets. Right-of-use assets are measured at cost less accumulated depreciation, accumulated impairment losses and any remeasurements of lease liabilities. The assets are depreciated on a straight-line basis over the shorter of the asset's useful life consistent with the rates in note 3(l) and lease term. Depreciation begins at the commencement date of the lease.

(ii) The Company as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. For subleases, where the Company acts as an intermediate lessor, the Company assesses classification with reference to the right-of-use asset arising from the head lease.

For finance subleases the Company derecognizes the corresponding right-of-use asset and records a net investment in the finance sublease and related interest income is recognized within finance costs, net on the consolidated statements of earnings.

Lease income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

(iii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. A sale and leaseback is recognized as a sale when the control of the asset has been transferred to the purchaser. The Company will measure the right-of-use asset arising from the leaseback and the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the Company. Any profit or loss in a sale and leaseback transaction related to the transfer of rights of the asset to the buyer-lessor is recognized immediately.

(O) INTANGIBLES

Intangibles arise on the purchase of a new business, existing franchises, software and the acquisition of pharmacy prescription files. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives as these assets are considered finite. Useful lives are reviewed annually and intangibles are subject to impairment testing. The following useful lives are applied:

Deferred purchase agreements	5 – 10 years
Franchise rights/agreements	10 years
Lease rights	5 – 10 years
Prescription files	15 years
Software	3 – 7 years
Other	5 – 10 years

Amortization has been included within selling and administrative expenses on the consolidated statements of earnings. Expenditures made by the Company relating to intangible assets that do not meet the capitalization criteria are expensed in the period incurred.

Included in intangibles are brand names, loyalty programs and private labels, the majority of which have indefinite useful lives. Intangibles with indefinite useful lives are measured at cost less any accumulated impairment losses. These intangibles are tested for impairment on an annual basis or more frequently if there are indicators that intangibles may be impaired.

(P) GOODWILL

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible and intangible assets acquired at the date of acquisition.

(Q) IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and indefinite life intangibles are reviewed for impairment at least annually by assessing the recoverable amount of each CGU or groups of CGUs to which the goodwill or indefinite life intangible relates. The recoverable amount is the higher of FVLCD and VIU. When the recoverable amount of the CGU(s) is less than the carrying amount, an impairment loss is recognized immediately in net earnings or loss. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and finite life intangible assets are reviewed each reporting period 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 FVLCD and VIU. 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 determined a CGU to be primarily an individual store or customer fulfilment centre. 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 immediately in selling and administrative expenses on the consolidated statements of earnings.

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 years. A reversal of impairment loss is recognized immediately in net earnings or loss.

(R) CUSTOMER LOYALTY PROGRAMS

The AIR MILES® loyalty program is used by the Company. AIR MILES® are earned by Sobeys customers based on purchases in stores. The Company pays a per point fee under the terms of the agreement with AIR MILES®. The cost of points is recorded as a reduction of revenue.

(S) 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. Where discounting is used, the increase in the provision due to passage of time (unwinding of the discount) is recognized within finance costs, net on the consolidated statements of earnings.

(T) BORROWING COSTS

Borrowing costs are primarily comprised of interest on the Company's debts. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a component of the cost of the asset to which it is related. All other borrowing costs are expensed in the period in which they are incurred and are reported within finance costs.

(U) DEFERRED REVENUE

Deferred revenue consists of long-term supplier purchase agreements. Deferred revenue is included in other long-term liabilities and is amortized to income on a straight-line basis over the term of the related agreements.

(V) EMPLOYEE BENEFITS

(i) Short-term employment benefits

Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses expected to be settled within 12 months from the end of the reporting period. Short-term employee benefits are measured on an undiscounted basis and are recorded as selling and administrative expenses as the related service is provided.

(ii) Post-employment benefits

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 and retirement ages.

The liability recognized on the consolidated balance sheets for defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair market value of plan assets. 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.

Remeasurements, comprising actuarial gains and losses and the return on plan assets (excluding amounts in net interest), are recognized immediately on the consolidated balance sheets with a corresponding charge to retained earnings through other comprehensive income or loss in the period in which they occur. Remeasurements are not reclassified to net earnings or loss in subsequent periods.

Past service costs are recognized in net earnings or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Company recognizes restructuring-related costs.

Service cost on the net defined benefit liability, comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements, is included in selling and administrative expenses. Net interest expense on the net defined benefit liability is included in finance costs, net.

(iii) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the Company recognizes related restructuring costs and when the Company can no longer withdraw the offer of those benefits.

(W) REVENUE RECOGNITION

Revenue is recognized upon delivery and acceptance of the goods. Revenue is measured at the expected consideration net of discounts and allowances. Sales include revenues from customers through corporate stores operated by the Company and consolidated SEs, customer fulfilment centers and revenue from sales to non-structured entity franchised stores, affiliated stores and independent accounts. Revenue received from non-structured entity franchised stores, affiliated stores and independent accounts is mainly derived from the sale of product. The Company also collects franchise fees under two types of arrangements: (i) franchise fees contractually due based on the dollar value of product shipped are recorded as revenue when the product is shipped; and (ii) franchise fees contractually due based on the franchisee's retail sales are recorded as revenue upon invoicing.

(X) VENDOR ALLOWANCES

The Company receives allowances from certain vendors whose products are purchased for resale. Included in these vendor programs are volume related allowances, purchase discounts, listing fees, and other discounts and allowances. The Company recognizes these allowances as a reduction of cost of sales and related inventories. Certain allowances are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. Amounts received but not yet earned are presented in other liabilities as deferred vendor allowances.

(Y) FINANCE AND DIVIDEND INCOME

Finance income and expenses are reported on an accrual basis using the effective interest method. Dividend income is recognized when the right to receive payment has been established.

(Z) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive effect of employee stock options and performance share units ("PSUs"). When a loss is recorded, the weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

(AA) STOCK-BASED COMPENSATION

The Company operates both equity and cash settled stock-based compensation plans for certain employees.

All goods and services received in exchange for the grant of any stock-based payments are measured at their fair values. Where employees are rewarded using stock-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted (Note 28).

(AB) STANDARDS, AMENDMENTS, AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

In May 2020, the IASB issued a package of narrow-scope amendments to three standards (IFRS 3, "Business Combinations"; IAS 16, "Property, Plant and Equipment"; and IAS 37, "Provisions, Contingent Liabilities and Contingent Assets") as well as the IASB's Annual Improvements to IFRS Standards 2018 – 2020. These amendments to existing IFRS standards are to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. These amendments are effective for annual periods beginning on or after January 1, 2022. The Company is assessing the potential impact of these narrow-scope amendments.

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current (Amendments to IAS 1, "Presentation of Financial Statements"). The narrow-scope amendment affects only the presentation of liabilities in the statement of financial position and not the amount or timing of recognition. Specifically, it clarifies:

- the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least 12 months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- that "settlement" refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

These amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the potential impact of this narrow-scope amendment.

4. Inventories

The cost of inventories recognized as an expense for the year ended May 1, 2021 was $21,069.0 (2020 – $19,954.9). The Company recorded an expense for the year ended May 1, 2021 of $4.9 (2020 – $2.0) for the write-down of inventories below cost to net realizable value for inventories on hand.

5. Leases and other receivables

		May 1, 2021		May 2, 2020
Lease receivable	**$**	**540.1**	$	574.7
Notes receivable and other		**48.0**		31.6
Loans receivable		**47.1**		42.9
		635.2		649.2
Less amount due within one year		**91.0**		68.4
	$	**544.2**	$	580.8

All lease receivables are due from franchisees and affiliates and are secured by the related head lease.

Included in notes receivable and other as at May 1, 2021 is $15.0 (2020 – $ nil) related to property sales and $7.2 (2020 – $8.8) due from third parties related to equipment sales.

Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment, bear various interest rates and have repayment terms up to 10 years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans.

6. Assets held for sale

As at May 1, 2021, assets held for sale relates to land, buildings and equipment expected to be sold in the next 12 months. These assets were previously used in the Company's retail and retail support operations.

During the year ended May 1, 2021, the Company sold two properties to third parties. Total proceeds from these transactions were $36.8, resulting in a pre-tax gain of $30.7.

During the year ended May 2, 2020, the Company reclassified one property from assets held for sale to investment property due to an incomplete transaction. Total reclassification value was $19.5, with $3.4 recognized as depreciation expense that would have otherwise been recognized if the asset had not been classified as held for sale.

7. Investments, at equity

	May 1, 2021	May 2, 2020
Investment in associates and joint ventures		
Crombie Real Estate Investment Trust ("Crombie REIT")	$ 471.4	$ 501.0
Canadian real estate partnerships	84.9	87.2
United States ("U.S.") real estate partnerships	11.3	14.0
Joint ventures	2.5	5.3
Total	$ 570.1	$ 607.5

The fair value of the investment in Crombie REIT, which is based on a published price quoted on the Toronto Stock Exchange ("TSX"), is as follows:

	May 1, 2021	May 2, 2020
Crombie REIT	$ 1,074.8	$ 825.1

The Canadian and U.S. real estate partnerships and joint ventures are not listed on a public stock exchange and hence published price quotes are not available.

The Company owns 64,747,332 (2020 – 64,677,272) Class B Limited Partnership ("Class B LP") units and attached special voting units of Crombie REIT, along with 909,090 (2020 – 909,090) REIT units, representing a 41.5% (2020 – 41.5%) economic and voting interest in Crombie REIT.

Crombie REIT has a distribution reinvestment plan ("DRIP") whereby Canadian resident REIT unitholders may elect to have their distributions automatically reinvested in additional REIT units. The Company is enrolled in the DRIP.

During the year ended May 2, 2020, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 of Class B LP units.

The Company's carrying value of its investment in Crombie REIT is as follows:

	May 1, 2021	May 2, 2020
Balance, beginning of year	$ 501.0	$ 466.5
Equity earnings	32.7	50.7
Share of comprehensive income	0.8	1.7
Distributions, net of DRIP	(62.2)	(61.4)
Deferral of gains on sale of property	(0.9)	(7.4)
Reversal of deferred gain on sale of property to unrelated party	–	9.4
Interest acquired in Crombie REIT	–	41.5
Balance, end of year	$ 471.4	$ 501.0

The Company's carrying value of its investment in Canadian real estate partnerships is as follows:

	May 1, 2021	May 2, 2020
Balance, beginning of year	$ 87.2	$ 94.6
Equity earnings	19.1	16.7
Distributions	(21.4)	(24.1)
Balance, end of year	$ 84.9	$ 87.2

The Company's carrying value of its investment in U.S. real estate partnerships is as follows:

	May 1, 2021	May 2, 2020
Balance, beginning of year	$ 14.0	$ 20.3
Equity earnings	2.2	3.3
Distributions	(3.3)	(10.5)
Foreign currency translation adjustment	(1.6)	0.9
Balance, end of year	$ 11.3	$ 14.0

The following amounts represent the revenues, expenses, assets and liabilities of Crombie REIT as at and for the 12 months ended March 31, 2021, as well as a reconciliation of the carrying amount of the Company's investment in Crombie REIT to the net assets attributable to unitholders of Crombie REIT:

		March 31, 2021		March 31, 2020
Revenues	**$**	**390.0**	$	395.8
Expenses		**312.6**		259.6
Earnings before income taxes	**$**	**77.4**	$	136.2
Loss from continuing operations	**$**	**(63.5)**	$	(14.9)
Other comprehensive income (loss)		**1.9**		(2.4)
Total comprehensive loss	**$**	**(61.6)**	$	(17.3)

		March 31, 2021		March 31, 2020
Assets				
Current	**$**	**128.7**	$	161.4
Non-current		**4,006.8**		3,876.9
Total	**$**	**4,135.5**	$	4,038.3
Liabilities				
Current	**$**	**467.5**	$	335.9
Non-current		**2,190.0**		2,166.0
Total	**$**	**2,657.5**	$	2,501.9

		March 31, 2021		March 31, 2020
Unitholders' net assets				
REIT Units	**$**	**881.4**	$	915.6
Class B LP units		**596.6**		620.8
		1,478.0		1,536.4
Less total REIT units outstanding as at March 31		**(881.4)**		(915.6)
Cumulative changes since acquisition of Crombie REIT				
Variances in timing of distributions		**–**		4.8
Issue costs related to Class B LP units		**12.6**		12.6
Deferred gains (net of depreciation addback and timing variances)		**(159.0)**		(158.6)
Dilution gains		**38.6**		38.6
Write-off of portion of AOCI on dilution of interest in Crombie REIT		**0.7**		0.7
Crombie REIT tax reorganization – deferred tax adjustment		**(31.7)**		(31.7)
Carrying amount attributable to investment in Class B LP units		**457.8**		487.2
REIT units owned by Empire		**13.8**		13.8
Cumulative equity earnings on REIT units		**6.7**		6.1
Cumulative distributions on REIT units		**(6.9)**		(6.1)
Empire's carrying amount of investment in Crombie REIT	**$**	**471.4**	$	501.0

The Company has interests in various Canadian real estate partnerships ranging from 40.7% to 49.0% which are involved in residential property developments in Ontario and Western Canada.

The following amounts represent the revenues, expenses, assets and liabilities of the Canadian real estate partnerships as at and for the 12 months ended March 31, 2021:

		March 31, 2021		March 31, 2020
Revenues	$	117.3	$	110.5
Expenses		72.2		69.8
Net earnings	$	45.1	$	40.7

		March 31, 2021		March 31, 2020
Current assets	$	236.4	$	243.6
Current liabilities		56.5		61.2
Net assets	$	179.9	$	182.4
Carrying amount of investment	$	84.9	$	87.2

The Company has interests in various U.S. real estate partnerships ranging from 37.1% to 39.0% which are involved in residential property developments in the U.S.

The following amounts represent the revenues, expenses, assets and liabilities of the U.S. real estate partnerships as at and for the 12 months ended March 31, 2021:

		March 31, 2021		March 31, 2020
Revenues	$	9.8	$	20.1
Expenses		4.0		11.3
Net earnings	$	5.8	$	8.8

		March 31, 2021		March 31, 2020
Current assets	$	37.5	$	38.0
Current liabilities		6.8		1.4
Net assets	$	30.7	$	36.6
Carrying amount of investment	$	11.3	$	14.0

8. Other assets

		May 1, 2021		May 2, 2020
Deferred lease assets	$	9.2	$	9.4
Investments		7.6		11.9
Derivative assets		0.1		0.2
Deferred financing costs		–		0.7
Other		5.4		6.5
Total	$	22.3	$	28.7

9. Property and equipment

May 1, 2021	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 451.9	$ 1,184.7	$ 2,613.8	$ 789.4	$ 363.3	$ 5,403.1
Additions	0.8	8.0	128.3	47.8	513.8	698.7
Additions from business acquisitions	–	0.9	3.1	1.5	–	5.5
Transfers and adjustments	(50.4)	73.0	156.7	173.6	(539.9)	(187.0)
Disposals and write-downs	(15.2)	(66.7)	(301.7)	(19.6)	(1.0)	(404.2)
Closing balance	$ 387.1	$ 1,199.9	$ 2,600.2	$ 992.7	$ 336.2	$ 5,516.1
Accumulated depreciation and impairment						
Opening balance	$ –	$ 490.5	$ 1,587.9	$ 441.3	$ –	$ 2,519.7
Disposals and write-downs	–	(19.0)	(294.1)	(18.7)	–	(331.8)
Transfers and adjustments	–	(5.0)	(10.6)	(0.1)	–	(15.7)
Depreciation	–	51.8	252.6	62.9	–	367.3
Impairment losses	–	–	3.0	0.1	–	3.1
Impairment reversals	–	–	(1.7)	(2.4)	–	(4.1)
Closing balance	$ –	$ 518.3	$ 1,537.1	$ 483.1	$ –	$ 2,538.5
Net carrying value	$ 387.1	$ 681.6	$ 1,063.1	$ 509.6	$ 336.2	$ 2,977.6

May 2, 2020	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 485.2	$ 1,236.2	$ 2,626.2	$ 784.2	$ 268.1	$ 5,399.9
Additions	0.9	(6.5)	138.1	28.4	358.8	519.7
Additions from business acquisitions	9.5	1.6	1.9	0.4	–	13.4
Transfers and adjustments	(6.8)	38.3	104.1	37.9	(265.3)	(91.8)
Disposals and write-downs	(36.9)	(84.9)	(256.5)	(61.5)	1.7	(438.1)
Closing balance	$ 451.9	$ 1,184.7	$ 2,613.8	$ 789.4	$ 363.3	$ 5,403.1
Accumulated depreciation and impairment						
Opening balance	$ –	$ 465.2	$ 1,579.5	$ 466.0	$ –	$ 2,510.7
Disposals and write-downs	–	(25.8)	(209.7)	(60.3)	–	(295.8)
Transfers and adjustments	–	(1.3)	(20.8)	(14.7)	–	(36.8)
Depreciation	–	50.6	240.3	53.2	–	344.1
Impairment losses	–	4.1	3.5	0.7	–	8.3
Impairment reversals	–	(2.3)	(4.9)	(3.6)	–	(10.8)
Closing balance	$ –	$ 490.5	$ 1,587.9	$ 441.3	$ –	$ 2,519.7
Net carrying value	$ 451.9	$ 694.2	$ 1,025.9	$ 348.1	$ 363.3	$ 2,883.4

ASSETS UNDER CONSTRUCTION

During the year ended May 1, 2021, the Company capitalized borrowing costs of $0.5 (2020 – $1.8) on indebtedness related to property and equipment under construction. The Company used a capitalization rate of 4.0% (2020 – 4.3%).

SECURITY

As at May 1, 2021, the net carrying value of property pledged as security for borrowings is $45.0 (2020 – $50.9).

IMPAIRMENT OF PROPERTY AND EQUIPMENT

The Company performed an impairment test for property and equipment and determined recoverable amounts based on VIU calculations using cash flow projections from the Company's latest internal forecasts. When the recoverable amount of a CGU is less than the carrying amount, an impairment loss is recognized. When the recoverable amount of a previously impaired CGU is greater than the value of its impaired assets, an impairment reversal is recognized. Key assumptions used in determining VIU include discount rates, growth rates and expected changes in cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the CGUs. Forecasts are projected beyond three years based on long-term growth rates ranging from 2.0% to 5.0%. Discount rates are calculated on a pre-tax basis and range from 6.0% to 11.0%.

Impairment losses of $3.1 and reversals of $4.1 were recorded in selling and administrative expenses during the year ended May 1, 2021 (2020 – $8.3 and $10.8).

All impairment losses and reversals relate to the Food retailing segment.

10. Leases

FINANCE LEASES, AS LESSEE

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

Changes in right-of-use assets are as follows:

May 1, 2021	Property	Other	Total
Opening balance	**$ 3,967.7**	**$ 65.8**	**$ 4,033.5**
Additions	**1,008.1**	**37.0**	**1,045.1**
Depreciation	**(385.5)**	**(14.2)**	**(399.7)**
Closing balance	**$ 4,590.3**	**$ 88.6**	**$ 4,678.9**

May 2, 2020	Property	Other	Total
Opening balance	$ 3,784.7	$ 16.0	$ 3,800.7
Additions	568.9	57.2	626.1
Disposals/retirements and adjustments	(32.8)	–	(32.8)
Depreciation	(353.1)	(7.4)	(360.5)
Closing balance	$ 3,967.7	$ 65.8	$ 4,033.5

During the year ended May 1, 2021, the Company completed sale and leaseback transactions which resulted in a right-of-use adjustment of $6.4 (2020 – $15.4).

The Company has variable rent payments which are recognized in selling and administrative expenses. Contingent rent recognized for the year ended May 1, 2021 is $11.9 (2020 – $12.6).

FINANCE LEASE LIABILITIES

Changes in lease liabilities are as follows:

	May 1, 2021	May 2, 2020
Opening balance	**$ 5,266.2**	$ 4,994.0
Lease additions	**1,062.0**	664.3
Lease payments	**(648.4)**	(610.3)
Interest expense on lease liabilities	**228.3**	218.2
Closing balance	**$ 5,908.1**	$ 5,266.2
Current	**$ 490.5**	$ 466.2
Non-current	**5,417.6**	4,800.0
Total	**$ 5,908.1**	$ 5,266.2

The weighted average incremental borrowing rate as at May 1, 2021 is 3.8% (2020 – 4.2%). The weighted average lease term remaining as at May 1, 2021 is 14 years (2020 – 14 years).

The total future minimum rent payable under the Company's finance leases as of May 1, 2021 is $7,800.7. The commitments over the next five fiscal years are:

	Third Party Lease Payments	Related Party Lease Payments
2022	$ 514.1	$ 171.3
2023	513.3	172.8
2024	492.6	174.7
2025	462.3	174.6
2026	420.3	171.4
Thereafter	2,929.0	1,604.3

OPERATING LEASES, AS LESSEE

The Company has short-term operating leases that are primarily related to equipment and vehicles and has recorded $16.0 (2020 – $16.5) within selling and administrative expenses on the consolidated statements of earnings.

FINANCE LEASES, AS A LESSOR

Finance income for the year ended May 1, 2021 was $24.0 (2020 – $24.5). The total future minimum rent to be received by the Company relating to properties that are subleased to third parties are:

		Finance Lease Payments to be Received
2022	$	77.9
2023		75.3
2024		69.9
2025		64.6
2026		58.3
Thereafter		328.1
Total undiscounted lease payments receivable		674.1
Unearned finance income		134.1
Net investment in finance subleases	$	540.0

OPERATING LEASES, AS LESSOR

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

Lease income for the year ended May 1, 2021 was $15.9 (2020 – $17.5) of which $0.2 (2020 – $0.2) was contingent rent and was recognized within other income on the consolidated statements of earnings.

The lease payments expected to be received over the next five fiscal years for owned properties are:

		Operating Lease Payments to be Received
2022	$	8.1
2023		7.5
2024		6.6
2025		5.3
2026		3.7
Thereafter		10.7
Total	$	41.9

The Company recorded $62.4 (2020 – $57.0) of sublease income for minimum lease payments received which has been recognized within selling and administrative expenses on the consolidated statements of earnings.

The lease payments expected to be received over the next five fiscal years for subleased properties are:

		Operating Lease Payments to be Received
2022	$	67.8
2023		61.2
2024		52.2
2025		41.0
2026		34.5
Thereafter		169.4
Total	$	426.1

11. Investment property

Investment property is primarily comprised of commercial properties owned by the Company held for income generating purposes, rather than for the principal purpose of the Company's operating activities.

		May 1, 2021		May 2, 2020
Cost				
Opening balance	**$**	**140.9**	$	119.8
Additions		**0.3**		2.8
Additions from business acquisitions		**1.9**		–
Transfers and adjustments		**50.4**		19.7
Disposals and write-downs		**(9.5)**		(1.4)
Closing balance	**$**	**184.0**	$	140.9
Accumulated depreciation and impairment				
Opening balance	**$**	**26.9**	$	19.8
Depreciation		**1.7**		4.5
Impairment expense		**2.6**		4.4
Transfers and adjustments		**(3.6)**		(1.7)
Disposals and write-downs		**(2.2)**		(0.1)
Closing balance	**$**	**25.4**	$	26.9
Net carrying value	**$**	**158.6**	$	114.0
Fair value	**$**	**232.3**	$	176.6

The fair value of investment property is classified as Level 3 on the fair value hierarchy. The fair value represents the price that would be received to sell the assets in an orderly transaction between market participants at the measurement date.

An external, independent valuation company, having appropriate recognized professional qualifications and experience, assisted in determining the fair value of investment properties chosen from a rotating sample each year at May 1, 2021 and May 2, 2020. Additions to investment property through acquisition are transacted at fair value, therefore, carrying value equals fair value at the time of acquisition. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information or the use of an external independent valuation company.

Rental income from investment property included in other income on the consolidated statements of earnings amounted to $4.1 for the year ended May 1, 2021 (2020 – $2.9).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to $2.3 for the year ended May 1, 2021 (2020 – $3.2). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to $1.7 for the year ended May 1, 2021 (2020 – $1.2). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of earnings.

Impairment of investment property follows the same methodology as property and equipment (Note 3(q)). Impairment losses of $2.6 and reversals of $ nil were recorded during the year ended May 1, 2021 (2020 – $4.4 and $ nil).

12. Intangibles

May 1, 2021	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Other	Total
Cost						
Opening balance	**$ 466.2**	**$ 171.6**	**$ 304.0**	**$ 328.2**	**$ 257.8**	**$ 1,527.8**
Additions and transfers	**–**	**10.3**	**–**	**91.3**	**(15.6)**	**86.0**
Disposals and write-downs	**–**	**(7.3)**	**(0.9)**	**(40.8)**	**(9.8)**	**(58.8)**
Closing balance	**$ 466.2**	**$ 174.6**	**$ 303.1**	**$ 378.7**	**$ 232.4**	**$ 1,555.0**
Accumulated amortization						
Opening balance	**$ 28.3**	**$ 101.5**	**$ 144.6**	**$ 190.8**	**$ 93.8**	**$ 559.0**
Amortization	**–**	**15.0**	**19.4**	**33.1**	**8.1**	**75.6**
Disposals, write-downs and transfers	**–**	**(5.6)**	**(0.9)**	**(40.7)**	**(8.4)**	**(55.6)**
Closing balance	**$ 28.3**	**$ 110.9**	**$ 163.1**	**$ 183.2**	**$ 93.5**	**$ 579.0**
Net carrying value	**$ 437.9**	**$ 63.7**	**$ 140.0**	**$ 195.5**	**$ 138.9**	**$ 976.0**

May 2, 2020	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Other	Total
Cost						
Opening balance	$ 465.9	$ 164.5	$ 304.0	$ 267.6	$ 244.2	$ 1,446.2
Additions and transfers	0.3	13.4	–	74.7	16.2	104.6
Disposals and write-downs	–	(6.3)	–	(14.1)	(2.6)	(23.0)
Closing balance	$ 466.2	$ 171.6	$ 304.0	$ 328.2	$ 257.8	$ 1,527.8
Accumulated amortization						
Opening balance	$ 28.3	$ 91.7	$ 125.1	$ 174.4	$ 91.4	$ 510.9
Amortization	–	15.4	19.5	31.0	5.6	71.5
Disposals, write-downs and transfers	–	(5.6)	–	(14.6)	(3.2)	(23.4)
Closing balance	$ 28.3	$ 101.5	$ 144.6	$ 190.8	$ 93.8	$ 559.0
Net carrying value	$ 437.9	$ 70.1	$ 159.4	$ 137.4	$ 164.0	$ 968.8

Included in other intangibles at May 1, 2021 are liquor licenses of $10.9 (2020 – $7.5). These licenses have options to renew and it is the Company's intention to renew these licenses at each renewal date indefinitely. Therefore, cash inflows are expected to be generated at each store location for which the license is valid, and these assets are considered to have indefinite useful lives. Also included in other intangibles as at May 1, 2021 are the following amounts with indefinite useful lives: loyalty programs – $11.4 (2020 – $11.4) and private labels – $59.5 (2020 – $59.5). The Company has determined that brand names with a net carrying value of $437.9 (2020 – $437.9) have indefinite useful lives. All intangibles with indefinite useful lives relate to the Food retailing segment. Impairment of these intangibles is assessed at least annually on the same basis as goodwill (Note 13).

Impairment of intangibles follows the same methodology as property and equipment (Note 3(q)). For the year ended May 1, 2021, impairment losses of $ nil (2020 – $ nil) and reversals of $ nil (2020 – $ nil) were recorded.

13. Goodwill

	May 1, 2021	May 2, 2020
Opening balance	**$ 1,573.7**	$ 1,571.5
Additions from business acquisitions	**4.3**	2.5
Other adjustments	**(0.2)**	(0.3)
Closing balance	**$ 1,577.8**	$ 1,573.7

Goodwill arising from business acquisitions is allocated at the lowest level within the organization at which it is monitored by management to make business decisions and is not higher than an operating segment before aggregation. Therefore, goodwill has been allocated to the following six operating segments within the Food retailing segment:

		May 1, 2021		May 2, 2020
Atlantic	**$**	**193.9**	$	193.8
Farm Boy		**541.4**		541.4
Lawtons		**19.5**		19.3
Ontario		**177.6**		174.3
Quebec		**641.3**		641.2
West		**4.1**		3.7
Total	**$**	**1,577.8**	$	1,573.7

Goodwill arising on business acquisitions is not amortized but is tested for impairment on an annual basis, or more frequently if indicators that goodwill may be impaired exist. The Company's annual test of goodwill was performed during the third quarter of fiscal 2021 and resulted in no impairment (2020 – $ nil) being recorded.

In performing the review, the Company determined the recoverable amount of the CGU to which goodwill relates based on FVLCD, except for Farm Boy which was estimated using a VIU model. For all operating segments other than Farm Boy, the key assumptions used by management to determine the fair value of the CGU includes industry earnings multiples in a range from 8.0 to 14.0. Farm Boy goodwill was measured using discounted cash flow projections, based on pre-tax cash flow forecasts from management approved budgets for the next fiscal year. Cash flow growth is based on projections for new retail sites as well as growth rate of 2.0% to 4.6% over a 10-year timeline for existing sites, with a terminal growth rate of 2.0%. A discount rate of 9.1% was used in the VIU model.

14. Income taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

		May 1, 2021		May 2, 2020
Earnings before income taxes	**$**	**1,030.1**	$	832.7
Effective combined statutory income tax rate		**26.5%**		27.4%
Income tax expense according to combined statutory income tax rate		**273.0**		228.2
Income taxes resulting from:				
Non-deductible items		**0.3**		0.8
Non-taxable items		**(4.2)**		(7.3)
Change in tax rates and subsidiary rate differential		**2.9**		0.4
Revaluation of tax estimates		**(6.0)**		–
Other		**(0.1)**		(2.2)
Total income tax expense, combined effective tax rate of 25.8% (2020 – 26.4%)	**$**	**265.9**	$	219.9

Current year income tax expense attributable to net earnings consists of:

		May 1, 2021		May 2, 2020
Current tax expense	**$**	**170.6**	$	31.1
Deferred tax expense:				
Origination and reversal of temporary differences		**92.4**		188.4
Change in tax rates		**2.9**		0.4
Total	**$**	**265.9**	$	219.9

Deferred taxes arising from temporary differences and unused tax losses can be summarized as follows:

May 1, 2021	Opening Balance	Recognized in: OCI and Equity	Recognized in: Net Earnings	Closing Balance
Accounts payable and accrued liabilities	**$ 4.1**	**$ –**	**$ 1.9**	**$ 6.0**
Employee future benefits	**83.0**	**(10.5)**	**(7.2)**	**65.3**
Goodwill and intangibles	**88.5**	**–**	**(21.6)**	**66.9**
Inventory	**4.7**	**–**	**0.9**	**5.6**
Investments	**(39.1)**	**0.4**	**(3.2)**	**(41.9)**
Lease liabilities	**1,409.3**	**–**	**156.4**	**1,565.7**
Long-term debt	**(1.9)**	**–**	**1.0**	**(0.9)**
Other assets	**(4.8)**	**–**	**2.5**	**(2.3)**
Other long-term liabilities	**40.3**	**0.1**	**(28.4)**	**12.0**
Property, equipment and investment property	**(64.1)**	**–**	**(18.9)**	**(83.0)**
Provisions	**31.0**	**–**	**4.2**	**35.2**
Partnership deferral reserve	**17.7**	**–**	**(9.0)**	**8.7**
Right-of-use assets and lease receivables	**(1,233.1)**	**–**	**(150.1)**	**(1,383.2)**
Tax loss carry forwards	**57.5**	**–**	**(27.9)**	**29.6**
Other	**(3.6)**	**–**	**4.1**	**0.5**
	$ 389.5	**$ (10.0)**	**$ (95.3)**	**$ 284.2**
Recognized as:				
Deferred tax assets	**$ 587.0**	**$ (10.4)**	**$ (101.7)**	**$ 474.9**
Deferred tax liabilities	**$ (197.5)**	**$ 0.4**	**$ 6.4**	**$ (190.7)**

May 2, 2020	Opening Balance	Recognized in: OCI and Equity	Recognized in: Net Earnings	Closing Balance
Accounts payable and accrued liabilities	$ 7.4	$ –	$ (3.3)	$ 4.1
Employee future benefits	79.6	6.0	(2.6)	83.0
Goodwill and intangibles	111.4	34.5	(57.4)	88.5
Inventory	5.6	–	(0.9)	4.7
Investments	(38.1)	(0.3)	(0.7)	(39.1)
Lease liabilities	–	1,370.9	38.4	1,409.3
Long-term debt	5.8	–	(7.7)	(1.9)
Other assets	(1.7)	2.0	(5.1)	(4.8)
Other long-term liabilities	42.0	(39.7)	38.0	40.3
Property, equipment and investment property	(59.2)	–	(4.9)	(64.1)
Provisions	76.0	(3.4)	(41.6)	31.0
Partnership deferral reserve	10.4	–	7.3	17.7
Right-of-use assets and lease receivables	–	(1,200.5)	(32.6)	(1,233.1)
Tax loss carry forwards	170.4	–	(112.9)	57.5
Other	(0.8)	–	(2.8)	(3.6)
	$ 408.8	$ 169.5	$ (188.8)	$ 389.5
Recognized as:				
Deferred tax assets	$ 614.3	$ 161.8	$ (189.1)	$ 587.0
Deferred tax liabilities	$ (205.5)	$ 7.7	$ 0.3	$ (197.5)

As at May 1, 2021, the Company had approximately $109.5 of Canadian non-capital tax loss carry forwards which expire between fiscal 2034 and 2041. The remaining deductible temporary differences do not expire under current income tax legislation. All deferred tax assets (including tax losses and other tax credits) have been recognized in the consolidated balance sheets as it is probable that future taxable income will be available to the Company to utilize the benefits of those assets. The amount of deferred tax assets and deferred tax liabilities that are expected to be recovered or settled beyond the next 12 months is $254.2.

Income tax (expense) benefit recognized in other comprehensive income is as follows:

		May 1, 2021		May 2, 2020
Unrealized losses on derivatives designated as cash flow hedges	$	–	$	0.4
Share of other comprehensive income of investments, at equity		(0.2)		(0.5)
Exchange differences on translation of foreign operations		(0.5)		0.5
Actuarial gains (losses) on defined benefit plans		(10.5)		6.1
Total	$	(11.2)	$	6.5

15. Provisions

May 1, 2021		Lease Contracts		Legal		Environmental		Restructuring		Total
Opening balance	$	10.9	$	7.6	$	41.4	$	43.5	$	103.4
Provisions made		12.9		7.8		0.1		54.8		75.6
Provisions used		(6.3)		(4.1)		(3.1)		(56.0)		(69.5)
Provisions reversed		(1.6)		(2.3)		–		(6.4)		(10.3)
Change due to discounting		0.6		–		1.2		0.5		2.3
Closing balance	$	16.5	$	9.0	$	39.6	$	36.4	$	101.5
Current	$	10.9	$	9.0	$	1.4	$	33.7	$	55.0
Non-current		5.6		–		38.2		2.7		46.5
Total	$	16.5	$	9.0	$	39.6	$	36.4	$	101.5

LEASE CONTRACTS

Lease contract provisions are recorded when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the obligations under the contract. The Company records onerous contract provisions for closed store locations where it has entered into a lease contract. The provision is measured at the lower of the expected cost to terminate the lease and the expected net cost of continuing the contract. The net cost is derived by considering the present value of future fixed occupancy costs net of related operating subleases in the lease excluding lease payments which are recognized as lease liabilities. Once the store is closed, a liability is recorded to reflect the present value of the expected liability associated with any lease contract and other contractually obligated costs. Onerous contract provisions for planned store or distribution centre closures as part of the Company's rationalization activities are classified as restructuring provisions and are measured and recorded using the same methodology. Discounting of provisions resulting from lease contracts has been calculated using pre-tax discount rates ranging between 7.0% and 9.0%.

LEGAL COSTS

Legal provisions relate to claims of $9.0 (2020 – $7.6) that are outstanding as at May 1, 2021 that arose in the ordinary course of business.

ENVIRONMENTAL COSTS

In accordance with legal and environmental policy requirements, the Company has recorded provisions for locations requiring environmental restoration. These provisions relate to decommissioning liabilities recorded for fuel station locations owned by the Company and other sites where restoration will be incurred at the net present value of the estimated future remediation costs. Discounting of environmental-related provisions has been calculated using pre-tax discount rates ranging between 4.0% and 6.0%.

RESTRUCTURING

Restructuring provisions made for the year ended May 1, 2021 were $54.8. Of this amount, $44.3 relates to store closure, conversion and labour buyout costs. These costs have been recorded in selling and administrative expenses on the consolidated statements of earnings. Discounting of restructuring provisions has been calculated using a pre-tax discount rate of 7.0%.

16. Long-term debt

	May 1, 2021	May 2, 2020
First mortgage loans, weighted average interest rate 5.84%, due 2022 – 2033	$ 3.9	$ 4.8
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	175.0	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	125.0	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	150.0	150.0
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	500.0	500.0
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	155.4	137.3
Credit facility, expired November 4, 2020, floating interest rate tied to bankers' acceptance rates	–	125.0
Credit facility, expired December 10, 2020, floating interest rate tied to bankers' acceptance rates	–	400.0
Credit facility, expiring November 4, 2022, floating interest rate tied to bankers' acceptance rates	119.8	62.6
	1,229.1	1,679.7
Unamortized transaction costs	(3.8)	(4.5)
	1,225.3	1,675.2
Less amount due within one year	46.5	570.0
	$ 1,178.8	$ 1,105.2

First mortgage loans are secured by land, buildings and specific charges on certain assets. Medium term notes and Series 2013-2 Notes are unsecured.

The Company has a $250.0 senior, unsecured revolving term credit facility with a maturity date of November 4, 2022. As of May 1, 2021, the outstanding amount of the credit facility was $119.8 (2020 – $62.6). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

On June 2, 2017, Sobeys established a senior, unsecured non-revolving credit facility for $500.0. On September 14, 2020, this facility, originally scheduled to mature on November 4, 2020, was fully repaid.

On December 5, 2018, Sobeys established a senior, unsecured non-revolving credit facility for $400.0. The facility was fully utilized on December 10, 2018, with the proceeds used to fund part of the Farm Boy acquisition. On November 6, 2020, this facility, originally scheduled to mature on December 10, 2020, was fully repaid.

Sobeys has a $650.0 senior, unsecured revolving term credit facility with a maturity date of November 4, 2022. As of May 1, 2021, the outstanding amount of the facility was $ nil (2020 – $ nil) and Sobeys has issued $86.1 in letters of credit against the facility (2020 – $76.4). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

The following table reconciles the changes in cash flows from financing activities for long-term debt:

	May 1, 2021	May 2, 2020
Opening balance	$ 1,675.2	$ 1,991.8
Issuance of debt	86.4	80.8
Repayments of long-term debt	(69.4)	(85.2)
Repayments on credit facilities, net	(467.8)	(313.1)
Total cash flow used in long-term debt financing activities	(450.8)	(317.5)
Deferred financing costs	0.9	0.9
Closing balance	$ 1,225.3	$ 1,675.2
Current	$ 46.5	$ 570.0
Non-current	1,178.8	1,105.2
Total	$ 1,225.3	$ 1,675.2

Principal debt retirement in each of the next five fiscal years is as follows:

2022	$	138.5
2023		10.5
2024		510.3
2025		7.9
2026		5.8
Thereafter		556.1

17. Other long-term liabilities

		May 1, 2021		May 2, 2020
Non-controlling interest liabilities	**$**	**80.1**	$	77.5
Deferred revenue		**7.1**		6.1
Other		**12.9**		13.9
Total	**$**	**100.1**	$	97.5

18. Employee future benefits

The Company has several defined contribution, defined benefit and multi-employer plans providing pension and other post-retirement benefits to most of its employees.

DEFINED CONTRIBUTION PENSION PLANS

The contributions required by the employee and the employer are included in the plan terms in the plan text. The employee's pension depends on the level of retirement income achieved with the combined total of employee and employer contributions and investment income over the period of plan membership and annuity purchase rates at the time of the employee's retirement.

DEFINED BENEFIT PENSION PLANS

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, fund part of the cost of the benefit and employer contributions fund the balance. The employer contributions are not specified or defined within the pension plan text, but are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation.

The defined benefit plans typically expose the Company to actuarial risks such as interest rate risk, mortality risk and salary risk.

Interest rate risk

The present value of the defined benefit liability is calculated using a discount rate that reflects the average yield, as at the measurement date, on high-quality corporate bonds of similar duration to the plans' liabilities. A decrease in the market yield on high-quality corporate bonds will increase the Company's defined benefit liability.

Mortality risk

The present value of the defined benefit plan is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salary of the plan participants. An increase in the salary of plan participants will increase the plan's liability.

The Company uses either January 1 or December 31 as an actuarial valuation date and May 1 as a measurement date for accounting purposes, for its defined benefit pension plans.

	Most Recent Valuation Date	Next Valuation Date
Retirement pension plans	December 31, 2019	December 31, 2020 (elected)
Senior management pension plans	December 31, 2019	December 31, 2020 (elected)
Other benefit plans	January 1, 2019	January 1, 2022

MULTI-EMPLOYER PLANS

The Company participates in various multi-employer pension plans which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. Approximately 12% of employees in the Company and of its franchisees and affiliates participate in these plans. Defined benefit multi-employer pension plans are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plans is not available due to the size and number of contributing employers in the plans. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements. The contributions made by the Company to multi-employer plans are expensed as contributions are due.

During the year ended May 1, 2021, the Company recognized an expense of $40.0 (2020 – $43.5) in selling and administrative expense which represents the contributions made in connection with multi-employer pension plans. During fiscal 2022, the Company expects to continue to make contributions to these multi-employer pension plans.

OTHER BENEFIT PLANS

The Company also offers certain employee post-retirement and post-employment benefit plans which are not funded and include health care, life insurance and dental benefits.

DEFINED CONTRIBUTION PLANS

The total expense, and cash contributions, for the Company's defined contribution plans was $33.4 for the year ended May 1, 2021 (2020 – $32.8).

DEFINED BENEFIT PLANS

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	May 1, 2021	May 2, 2020	**May 1, 2021**	May 2, 2020
Defined benefit obligation				
Balance, beginning of year	**$ 840.1**	$ 819.8	**$ 113.3**	$ 113.2
Current service cost, net of employee contributions	**1.3**	1.0	**2.6**	2.5
Interest cost	**21.7**	24.9	**3.1**	3.6
Benefits paid	**(68.5)**	(67.4)	**(4.9)**	(4.7)
Settlements	**–**	0.1	**–**	–
Remeasurement – actuarial (gains) losses included in other comprehensive (loss) income	**(44.4)**	61.7	**(6.6)**	(1.3)
Balance, end of year	**$ 750.2**	$ 840.1	**$ 107.5**	$ 113.3

	Pension Benefit Plans		Other Benefit Plans	
	May 1, 2021	May 2, 2020	**May 1, 2021**	May 2, 2020
Plan assets				
Fair value, beginning of year	**$ 649.3**	$ 646.9	**$ –**	$ –
Interest income on plan assets	**16.6**	19.7	**–**	–
Remeasurement (loss) return on plan assets (excluding amount in net interest)	**(9.4)**	33.2	**–**	–
Employer contributions	**17.4**	18.3	**4.9**	4.7
Benefits paid	**(68.6)**	(67.4)	**(4.9)**	(4.7)
Administrative costs	**(1.6)**	(1.4)	**–**	–
Fair value, end of year	**$ 603.7**	$ 649.3	**$ –**	$ –

	Pension Benefit Plans		Other Benefit Plans	
	May 1, 2021	May 2, 2020	**May 1, 2021**	May 2, 2020
Funded status				
Total fair value of plan assets	**$ 603.7**	$ 649.3	**$ –**	$ –
Present value of unfunded obligations	**(92.1)**	(96.3)	**(107.5)**	(113.3)
Present value of partially funded obligations	**(658.1)**	(743.8)	**–**	–
Accrued benefit liabilities	**$ (146.5)**	$ (190.8)	**$ (107.5)**	$ (113.3)

	Pension Benefit Plans		Other Benefit Plans	
	May 1, 2021	May 2, 2020	**May 1, 2021**	May 2, 2020
Expenses				
Current service cost, net of employee contributions	**$ 1.3**	$ 1.0	**$ 2.6**	$ 2.5
Net interest on net defined benefit liability	**5.1**	5.2	**3.1**	3.6
Administrative costs	**1.6**	1.4	**–**	–
Settlement loss	**–**	0.1	**–**	–
Expenses	**$ 8.0**	$ 7.7	**$ 5.7**	$ 6.1

Current and past service costs have been recognized within selling and administrative expenses, whereas interest costs and return on plan assets (excluding amounts in net interest costs) have been recognized within finance costs, net on the consolidated statements of earnings.

Actuarial gains and losses recognized directly in other comprehensive (loss) income:

	Pension Benefit Plans		Other Benefit Plans	
	May 1, 2021	May 2, 2020	**May 1, 2021**	May 2, 2020
Remeasurement effects recognized in other comprehensive (loss) income				
Loss (return) on plan assets (excluding amounts in net interest)	**$ 9.4**	$ (33.2)	**$ –**	$ –
Actuarial (gain) loss – experience changes	**(2.9)**	5.5	**–**	(5.4)
Actuarial gain – demographic assumptions	**(1.4)**	–	**–**	–
Actuarial (gain) loss – financial assumptions	**(40.2)**	56.3	**(6.6)**	4.1
Remeasurement effects recognized in other comprehensive (loss) income	**$ 35.1**	$ (28.6)	**$ 6.6**	$ 1.3

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 1, 2021):

	Pension Benefit Plans		Other Benefit Plans	
	May 1, 2021	May 2, 2020	**May 1, 2021**	May 2, 2020
Discount rate	**3.10%**	2.70%	**3.20%**	2.70%
Rate of compensation increase	**3.50%**	3.50%		

For measurement purposes, a 4.75% 2021 annual rate of increase in the per capita cost of covered health care benefits was assumed (2020 – 5.00%). The cumulative rate expectation to 2022 and thereafter is 4.50%.

These assumptions were developed by management with consideration of expert advice provided by independent actuarial appraisers. These assumptions are used in the determination of the Company's defined benefit obligations and should be regarded as management's best estimate. The actual outcome may vary. Estimation uncertainties exist, in particular regarding medical cost trends, which may vary significantly in future appraisals of the Company's obligations.

The following table outlines the sensitivity of the fiscal 2021 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on accrued benefit obligations or benefit plan expenses.

	Pension Benefit Plans		Other Benefit Plans	
	Benefit Obligations	**Benefit Cost(1)**	**Benefit Obligations**	**Benefit Cost(1)**
Discount rate(2)	3.10%	3.10%	3.20%	3.20%
Impact of: 1% increase	$ (91.0)	$ (2.1)	$ (12.5)	$ 0.2
Impact of: 1% decrease	$ 113.6	$ 0.6	$ 15.4	$ (0.4)
Growth rate of health care costs(3)			4.75%	4.75%
Impact of: 1% increase			$ 5.0	$ 0.3
Impact of: 1% decrease			$ (4.4)	$ (0.3)

(1) Reflects the impact on the current service cost, interest cost and net interest on defined benefit liability (asset).
(2) Based on weighted average of discount rates related to all plans.
(3) Gradually decreasing to 4.50% in 2022 and remaining at that level thereafter.

The asset mix of the defined benefit pension plans as at year end is as follows:

	May 1, 2021	May 2, 2020
Canadian equity funds	**6.6%**	5.1%
Foreign equity funds	**18.5%**	14.0%
Fixed income funds	**74.6%**	80.6%
Net working capital	**0.3%**	0.3%
Total investments	**100.0%**	100.0%

Within these securities are investments in Empire Non-Voting Class A shares. The pro rata market value of these shares at year end is as follows:

	May 1, 2021	**% of Plan Assets**	May 2, 2020	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	**$ –**	**–**	$ 6.0	0.9%

All the securities are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities, or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

The actual return on plan assets was $5.6 for the year ended May 1, 2021 (2020 – $51.5).

Management's best estimate of contributions expected to be paid to the defined benefit pension plans during the annual period beginning on May 2, 2021 and ending on May 7, 2022 is $22.3.

19. Capital stock

NORMAL COURSE ISSUER BID

On June 18, 2020, the Company renewed its normal course issuer bid ("NCIB") by filing a notice of intention with the TSX to purchase for cancellation up to 5.0 million Non-Voting Class A shares representing approximately 3.0% of Non-Voting Class A shares outstanding. The purchase will be made through the facilities of the TSX and/or any alternative trading systems to the extent they are eligible. The price that Empire will pay for any such shares will be the market price at the time of acquisition. Purchases could commence on July 2, 2020 and shall terminate not later than July 1, 2021.

On April 19, 2021, the Company increased the size of its NCIB by filing an amended notice of intention with the TSX. The amendment increased the number of Non-Voting Class A shares the Company intends to purchase for cancellation to 8,548,551 representing approximately 5.0% of the Non-Voting Class A shares outstanding.

The following table reflects shares repurchased under the NCIB:

	May 1, 2021	May 2, 2020
Number of shares	**4,124,260**	2,997,583
Weighted average price	**$ 37.24**	$ 33.36
Reduction of share capital	**$ 49.8**	$ 35.3
Premium charged to retained earnings	**103.8**	64.7
Cash consideration paid	**$ 153.6**	$ 100.0

In fiscal 2020, the Company entered into an automatic share purchase plan with its designated broker allowing the purchases of Non-Voting Class A shares for cancellation under its NCIB program during trading black-out periods.

The Company's authorized, issued and outstanding shares are as follows:

	Number of Shares	
Authorized	**May 1, 2021**	May 2, 2020
2002 Preferred shares, par value of $25 each, issuable in series	**991,980,000**	991,980,000
Non-Voting Class A shares, without par value	**760,984,006**	765,108,266
Class B common shares, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding	**Number of Shares**	**May 1, 2021**	May 2, 2020
Non-Voting Class A shares, without par value	**167,323,301**	**$ 1,963.4**	$ 2,009.1
Class B common shares, without par value, voting	**98,138,079**	**7.3**	7.3
Shares held in trust	**(46,512)**	**(0.9)**	(3.2)
Total		**$ 1,969.8**	$ 2,013.2

Under certain circumstances, where an offer (as defined in the share conditions) is made to purchase Class B common shares, the holders of the Non-Voting Class A shares shall be entitled to receive a follow-up offer at the highest price per share paid, pursuant to such offer to purchase Class B common shares.

During the year ended May 1, 2021, the Company paid common dividends of $139.4 (2020 – $129.7) to its equity holders. This represents a payment of $0.52 per share (2020 – $0.48 per share) for common shareholders.

The Company has established a trust fund to facilitate the purchase of Non-Voting Class A shares for the future settlement of vested units under the Company's equity settled stock-based compensation plans. Contributions to the trust fund and the Non-Voting Class A shares purchased are held by AST Trust Company (Canada) as trustee. The trust fund is an SE and as such the accounts of the trust fund are included on the consolidated financial statements of the Company. The following represents the activity of shares held in trust, recorded at cost:

Shares held in trust	**Number of Shares**	**May 1, 2021**	May 2, 2020
Balance, beginning of year	**163,497**	**$ 3.2**	$ 5.3
Purchased	**824**	**–**	–
Issued	**(117,809)**	**(2.3)**	(2.1)
Balance, end of year	**46,512**	**$ 0.9**	$ 3.2

20. Other income

	May 1, 2021	May 2, 2020
Net gain on disposal of assets and lease terminations	**$ 37.1**	$ 51.7
Lease income from owned property	**15.9**	17.5
Total	**$ 53.0**	$ 69.2

21. Employee benefits expense

	May 1, 2021	May 2, 2020
Wages, salaries and other short-term employment benefits	**$ 3,504.2**	$ 3,319.3
Post-employment benefits	**38.8**	37.8
Termination benefits	**9.2**	8.7
Total	**$ 3,552.2**	$ 3,365.8

22. Finance costs, net

		May 1, 2021		May 2, 2020
Finance income				
Interest income on lease receivables	**$**	**24.0**	$	24.5
Interest income from cash and cash equivalents		**5.5**		8.0
Fair value gains on forward contracts		**3.9**		3.6
Accretion income on leases and other receivables		**0.4**		0.5
Total finance income		**33.8**		36.6
Finance costs				
Interest expense on lease liabilities		**228.3**		218.2
Interest expense on other financial liabilities at amortized cost		**64.5**		85.6
Pension finance costs, net		**8.1**		8.9
Accretion expense on provisions		**2.3**		3.0
Total finance costs		**303.2**		315.7
Finance costs, net	**$**	**269.4**	$	279.1

23. Earnings per share

	May 1, 2021	May 2, 2020
Weighted average number of shares – basic	**268,326,099**	270,441,107
Shares deemed to be issued for no consideration in respect of stock-based payments	**967,820**	972,901
Weighted average number of shares – diluted	**269,293,919**	271,414,008

24. Business acquisitions

The Company acquires franchise and non-franchise retail stores, retail fuel locations and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the acquisition method. Goodwill recorded on the acquisitions of franchise and non-franchise stores and retail fuel locations relate to the acquired work-force and customer base of the existing store location, along with the synergies expected from combining the efforts of the acquired stores with existing stores.

The following table represents the amounts of identifiable assets and liabilities from resulting acquisitions for the year ended:

		May 1, 2021		May 2, 2020
Receivables	**$**	**–**	$	0.8
Inventories		**4.2**		3.0
Property, equipment and investment property		**7.4**		13.4
Intangibles		**–**		0.3
Goodwill		**4.3**		2.5
Accounts payable and accrued liabilities		**–**		(0.8)
Total consideration	**$**	**15.9**	$	19.2

For acquired businesses during the year ended May 1, 2021, sales of $36.2 (2020 – $34.6) and net earnings of $ nil (2020 – $(1.2) were included in the consolidated financial statements.

25. Guarantees and contingent liabilities

GUARANTEES

Franchisees and affiliates

Sobeys is party to several franchise and operating agreements as part of its business model. These agreements contain clauses which require Sobeys to provide support to franchisee and affiliate operators 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. Sobeys will continue to provide financial support pursuant to the franchise and operating agreements in future years.

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 fulfil their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 or 10.0% (2020 – $6.0 or 10.0%) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to provide a letter of credit in the amount of the outstanding guarantee, to be renewed each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain franchisees and affiliates. As at May 1, 2021, the amount of the guarantee was $6.0 (2020 – $6.0).

Other

At May 1, 2021, the Company had entered into letters of credit issued in an aggregate amount of $99.3 (2020 – $88.6) to support the Company's obligations.

Sobeys, through its subsidiaries, has guaranteed the payment of obligations under certain commercial development agreements. As at May 1, 2021, Sobeys has guaranteed $40.0 (2020 – $40.0) in obligations related to these agreements.

CONTINGENT LIABILITIES

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to Lumsden Brothers Limited, a wholesale subsidiary of Sobeys, and the Goods and Service Tax ("GST"). The reassessment related to GST on sales of tobacco products to eligible First Nations people. CRA asserts that Sobeys was obliged to collect GST on sales of tobacco products to eligible First Nations people. The total tax, interest and penalties in the reassessment was $13.6 (2020 – $13.6). Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During fiscal 2006, Sobeys filed a Notice of Objection with CRA. The matter is still under dispute and Sobeys has filed a Notice of Appeal with the Tax Court of Canada. Accordingly, Sobeys has not recorded on its statements of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds equal to the total tax, interest and penalties in the reassessment and has recorded this amount as an other long-term receivable from CRA pending resolution of the matter. The continuation of the hearing of the Appeal is scheduled to be heard at the Tax Court of Canada in July 2021.

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.

26. Financial instruments

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, receivables, leases and other receivables, derivative contracts and guarantees.

The Company's maximum exposure to credit risk corresponds to the carrying amount for all cash and cash equivalents, loans and receivables, and guarantee contracts for franchisees and affiliates (Note 25).

The Company mitigates credit risk associated with its trade receivables and loans receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. The Company regularly monitors collection performance and pledged security for all of its receivables, and leases and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with counterparties that are dual rated by recognized credit rating agencies and have a credit rating of "A" or better to minimize credit risk.

Receivables are substantially comprised of balances due from independent accounts, franchisee or affiliate locations as well as rebates and allowances from vendors. The due date of these amounts can vary by agreement but in general balances over 30 days are considered past due. The aging of the receivables is as follows:

	May 1, 2021	May 2, 2020
0 – 30 days	$ **456.6**	$ 464.0
31 – 90 days	**16.1**	28.2
Greater than 90 days	**110.6**	81.9
Total receivables before allowance for credit losses	**583.3**	574.1
Less allowance for credit losses	**36.3**	38.8
Receivables	$ **547.0**	$ 535.3

Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses on the consolidated statements of earnings. Receivables are classified as current on the consolidated balance sheets as of May 1, 2021.

Allowance for credit losses is reviewed at each balance sheet date. An allowance is taken on receivables from independent accounts, as well as receivables, leases and other receivables from franchisee or affiliate locations and is recorded as a reduction to its respective receivable account on the consolidated balance sheets. The change in allowance for credit losses is recorded as selling and administrative expenses on the consolidated statements of earnings and is presented as follows:

	May 1, 2021	May 2, 2020
Allowance, beginning of year	$ **38.8**	$ 26.8
Provision for losses	**9.3**	17.2
Recoveries	**(1.2)**	(0.2)
Write-offs	**(10.6)**	(5.0)
Allowance, end of year	$ **36.3**	$ 38.8

LIQUIDITY RISK

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

The Company monitors capital markets and the related conditions, and monitors its cash flows in order to assist in optimizing its cash position and evaluate longer term cash and funding requirements. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due, or as assessed to be appropriate, in order to minimize risk and optimize pricing.

The following table summarizes the amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 1, 2021:

	2022	2023	2024	2025	2026	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	$ 43.6	$ 5.2	$ –	$ –	$ –	$ –	$ 48.8
Non-controlling interest liabilities	–	–	72.0	8.1	–	–	80.1
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	2,874.1	–	–	–	–	–	2,874.1
Long-term debt	193.7	65.4	553.3	39.1	36.8	891.7	1,780.0
Total	$ 3,111.4	$ 70.6	$ 625.3	$ 47.2	$ 36.8	$ 891.7	$ 4,783.0

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the estimated amount that the Company would receive to sell financial assets or pay to transfer financial liabilities in an orderly transaction between market participants at the measurement date.

The book value of cash and cash equivalents, receivables, current portion of leases and other receivables, and accounts payable and accrued liabilities approximates fair value at the balance sheet dates due to the short-term maturity of these instruments.

The book value of the long-term portion of leases and other receivables approximates fair value at the balance sheet dates due to the current market rates associated with these instruments.

The fair value of the variable rate long-term debt approximates its carrying amount based on current market rates and consistency of credit spread. The fair value of long-term debt has been estimated by discounting future cash flows at a rate offered for borrowings of similar maturities and credit quality.

The fair value of derivative financial assets and liabilities, classified as Level 2, is estimated using valuation models that utilize market based observable inputs. Management believes that its valuation technique is appropriate.

The fair value of the non-controlling interest put liabilities associated with the acquisitions of Farm Boy and Kim Phat is equivalent to the present value of the non-controlling interest buyout price which is based on the future earnings of these entities at a predetermined date. The fair value of these options is classified as Level 3 within the three-level hierarchy of IFRS 13, “Fair value measurement”.

There were no transfers between classes of the fair value hierarchy during the year ended May 1, 2021.

The carrying amount of the Company’s financial instruments approximates their fair values with the following exception:

Long-term debt	**May 1, 2021**	May 2, 2020
Total carrying amount	**$ 1,225.3**	$ 1,675.2
Total fair value	**$ 1,406.7**	$ 1,832.2

As at May 1, 2021, the fair value hierarchy includes financial assets at FVTPL of $ nil, $0.1 and $ nil for Levels 1, 2 and 3, respectively (2020 – $ nil, $0.2 and $ nil).

As at May 1, 2021, the fair value hierarchy includes financial liabilities at FVTPL of $ nil, $0.5 and $80.1 for Levels 1, 2 and 3, respectively (2020 – $ nil, $0.3 and $77.5).

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recorded on the consolidated balance sheets at fair value unless the derivative instrument is a contract to buy or sell a non-financial item in accordance with the Company’s expected purchase, sale or usage requirements, referred to as a “normal purchase” or “normal sale”. Changes in the fair values of derivative financial instruments are recognized in net earnings or loss unless it qualifies and is designated as an effective cash flow hedge or a normal purchase or normal sale. Normal purchases and normal sales are exempt from the application of the standard and are accounted for as executory contracts. Changes in fair value of a derivative financial instrument designated as a cash flow hedge are recorded in other assets and other long-term liabilities with the effective portion recorded in other comprehensive income or loss.

CASH FLOW HEDGES

The Company's cash flow hedges consist principally of foreign currency swaps, electricity sales agreements and natural gas sales agreements. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Electricity and natural gas sales agreements are used to mitigate the risk of changes in market prices of electricity and natural gas. Gains and losses are initially recognized directly in other comprehensive income or loss and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the year.

As of May 1, 2021, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of $0.1 (2020 – $0.2) and liabilities of $0.5 (2020 – $0.3).

Cash flows from cash flow hedges are expected to flow over the next two years until fiscal 2024, and are expected to be recognized in net earnings or loss over this period, and, in the case of foreign currency swaps, over the life of the related debt in which a portion of the initial cost is being hedged.

INTEREST RATE RISK

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates.

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The majority of the Company's long-term debt is at fixed interest rates. Approximately 32.1% (2020 – 46.0%) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings or loss is impacted by a change in interest rates on the average balance of interest-bearing financial liabilities during the year. For the year ended May 1, 2021, the Company's average outstanding unhedged floating rate debt was $466.0 (2020 – $849.3). An increase (decrease) of 25 basis points would have impacted net earnings by $0.9 ($0.9) (2020 – $1.5 ($1.5)) as a result of the Company's exposure to interest rate fluctuations on its unhedged floating rate debt.

FOREIGN CURRENCY EXCHANGE RISK

The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars, British pound and European euros. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for foreign currencies. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. The Company does not consider its exposure to foreign currency exchange risk to be material.

The Company has entered into foreign currency forward contracts and foreign currency swaps for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in net earnings or loss in future accounting periods.

The Company estimates that a 10% increase (decrease) in applicable foreign currency exchange rates would impact net earnings by $ nil ($ nil) (2020 – $ nil ($ nil)) and other comprehensive (loss) income by $3.8 ($3.8) (2020 – $0.9 ($0.9)) for foreign currency derivatives in place at year end.

27. Segmented information

The Company's reportable segments are Food retailing and Investments and other operations. The Food retailing segment is comprised of six operating segments: Atlantic, Farm Boy, Lawtons, Ontario, Quebec and West. These operating segments have been aggregated into one reportable segment, "Food retailing", as they all share similar economic characteristics such as: product offerings, customer base and distribution methods. The Investments and other operations segment principally consists of investments, at equity, in Crombie REIT, real estate partnerships and various other corporate operations.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

All inter-segment transfers are carried out at arm's length prices. The measurement policies the Company uses for segment reporting under IFRS 8, "Operating segments", are the same as those used on its consolidated financial statements.

No asymmetrical allocations of income, expense or assets have been applied between segments.

All sales are generated by the Food retailing segment. Operating income generated by each of the Company's business segments is summarized as follows:

		May 1, 2021		May 2, 2020
Segmented operating income				
Food retailing	**$**	**1,251.3**	$	1,040.2
Investments and other operations				
Crombie REIT		**32.7**		50.7
Real estate partnerships		**21.3**		20.1
Other operations, net of corporate expenses		**(5.8)**		0.8
		48.2		71.6
Total	**$**	**1,299.5**	$	1,111.8

Segment operating income can be reconciled to the Company's earnings before income taxes as follows:

		May 1, 2021		May 2, 2020
Total operating income	**$**	**1,299.5**	$	1,111.8
Finance costs, net		**269.4**		279.1
Total	**$**	**1,030.1**	$	832.7

		May 1, 2021		May 2, 2020
Total assets by segment				
Food retailing	**$**	**14,520.6**	$	13,932.9
Investments and other operations		**653.3**		700.0
Total	**$**	**15,173.9**	$	14,632.9

28. Stock-based compensation

PERFORMANCE SHARE UNIT PLAN

The Company awards PSUs to certain employees. The number of PSUs that vest under an award, for the most part, is dependent on time and the achievement of specific performance measures. Upon vesting, each employee is entitled to receive Non-Voting Class A shares equal to the number of their vested PSUs. The weighted average fair value of $30.45 per PSU issued during the current year was determined using the Black-Scholes model with the following weighted average assumptions:

Share price	$31.66
Expected life	2.67 years
Risk-free interest rate	0.31%
Expected volatility	31.37%
Dividend yield	1.46%

At May 1, 2021, there were 355,197 (2020 – 284,184) PSUs outstanding. The compensation expense for the year ended May 1, 2021 related to PSUs was $6.1 (2020 – $1.6).

STOCK OPTION PLAN

During the year ended May 1, 2021, the Company granted 926,108 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The weighted average fair value of $7.19 per option issued during the year was determined using the Black-Scholes model with the following weighted average assumptions:

Share price	$30.90
Expected life	4.74 years
Risk-free interest rate	0.36%
Expected volatility	31.49%
Dividend yield	1.46%

The compensation expense for the year ended May 1, 2021 related to the issuance of options was $5.7 (2020 – $4.6).

The outstanding options at May 1, 2021 were granted at prices between $18.70 and $36.86 and expire between June 2021 and June 2028 with a weighted average remaining contractual life of 5.51 years. Stock option transactions during fiscal 2021 and 2020 were as follows:

	2021			2020		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	**4,685,664**	**$**	**26.03**	4,293,888	$	23.31
Granted	**926,108**		**30.90**	1,730,178		31.38
Exercised	**(1,196,129)**		**22.67**	(1,115,115)		24.57
Expired	**(5,216)**		**25.44**	(3,525)		30.23
Forfeited	**(49,395)**		**31.32**	(219,762)		22.40
Balance, end of year	**4,361,032**	**$**	**27.96**	4,685,664	$	26.03
Stock options exercisable, end of year	**1,346,483**			1,732,433		

The following table summarizes information related to stock options outstanding at May 1, 2021:

	Options Outstanding				Options Exercisable		
Year Granted	Number of Outstanding Options	Weighted Average Remaining Contractual Life[(1)]		Weighted Average Exercise Price	Number Exercisable at May 1, 2021		Weighted Average Exercise Price
2014	44,574	0.16	$	26.42	44,574	$	26.42
2015	62,646	1.16		22.68	62,646		22.68
2016	121,222	2.16		30.23	121,222		30.23
2017	209,903	3.16		20.66	209,903		20.66
2018	668,385	4.16		19.65	429,267		19.75
2019	656,504	5.16		26.03	311,462		26.05
2020	1,687,818	6.16		31.39	167,409		31.47
2021	909,980	7.16		30.90	–		–
Total	4,361,032	5.51	$	27.96	1,346,483	$	24.11

(1) Weighted average remaining contractual life is expressed in years.

DEFERRED STOCK UNIT PLANS

Deferred stock units ("DSUs") issued to employees under the Executive DSU Plan vest dependent on time and the achievement of specific performance measures. At May 1, 2021, there were 1,721,293 (2020 – 1,337,562) DSUs outstanding and the total carrying amount of the liability was $57.4 (2020 – $28.4). The compensation expense for the year ended May 1, 2021 related to DSUs was $30.1 (2020 – $12.0).

Members of the Board of Directors may elect to receive all or any portion of their fees in DSUs in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each directors' or employees' fee payment date. At May 1, 2021, there were 364,643 (2020 – 306,489) DSUs outstanding and the total carrying amount of the liability was $14.1 (2020 – $9.5). During the year ended May 1, 2021, the compensation expense recorded was $4.6 (2020 – $2.1).

Under both DSU plans, vested DSUs cannot be redeemed until the employee has left the Company or the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Non-Voting Class A share at the time of redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase or decrease in the DSU obligation as selling and administrative expenses.

29. Related party transactions

The Company enters into related party transactions with Crombie REIT and key management personnel, including ongoing leases and property management agreements. The Company holds a 41.5% (2020 – 41.5%) ownership interest in Crombie REIT and accounts for its investment using the equity method.

Crombie REIT has instituted a DRIP whereby Canadian resident REIT unitholders may elect to automatically have their distributions reinvested in additional REIT units. The Company has enrolled in the DRIP to maintain its economic and voting interest in Crombie REIT.

The Company leased certain real property from Crombie REIT during the year at amounts which in management's opinion approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value based on the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases totalled approximately $209.1 (2020 – $188.8).

Crombie REIT provides administrative and property management services to the Company on a fee for service basis pursuant to a Management Agreement effective January 1, 2016. The Management Agreement replaces the previous arrangement where charges incurred were on a cost recovery basis.

During the year ended May 1, 2021, Sobeys, through a wholly-owned subsidiary, sold and leased back six properties to Crombie REIT for cash consideration of $45.3 resulting in a pre-tax gain of $1.5.

During the year ended May 1, 2021, Sobeys, through a wholly-owned subsidiary, received $25.4 (2020 – $61.8) for reimbursements of lessor improvements from Crombie REIT. These payments are related to modernization and efficiency improvements of existing properties, and construction allowances. As of May 1, 2021, an additional $3.8 is currently receivable from Crombie REIT for these reimbursements.

On February 11, 2020, Crombie REIT finalized a bought-deal public offering of units at a price of $16.00 per unit for aggregate proceeds of $100.0. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 of Class B LP units.

On December 16, 2019, Sobeys, through a wholly-owned subsidiary, sold and leased back 50% of a distribution centre to Crombie REIT for cash consideration of $95.7. This resulted in a pre-tax gain of $9.0. Crombie REIT now owns 100% of the property.

On November 28, 2019, Sobeys, through a wholly-owned subsidiary, sold one property to Crombie REIT for cash consideration of $3.2. There was no gain or loss as a result of this sale.

On August 1, 2019, Sobeys, through a wholly-owned subsidiary, sold 50% of a property to Crombie REIT for cash consideration of $9.5 resulting in a pre-tax gain of $1.5.

On May 28, 2019, Crombie REIT announced an agreement to sell an 89% interest in a 15-property portfolio to a third-party purchaser which closed on October 7, 2019. Sobeys and Crombie REIT entered into lease amending agreements on properties disposed where Sobeys was a lessee to secure longer contractual terms, as well as additional option terms on the sites. As consideration for these amendments, Crombie REIT agreed to pay an aggregate amount to Sobeys over a period of three years. As of May 1, 2021, Sobeys has accrued a total of $2.2 in current receivables related to these amounts.

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:

	May 1, 2021	May 2, 2020
Salaries, bonus and other short-term employment benefits	$ 20.0	$ 14.1
Post-employment benefits	1.6	2.7
Share-based payments	9.4	9.9
Total	$ 31.0	$ 26.7

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.

30. Capital management

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and (iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of the Company. There have been no changes to the Company's objectives during the year ended May 1, 2021.

The Company monitors and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

The Company considers its total capitalization to include all interest-bearing debt, including bank loans, long-term debt (including the current portion thereof), lease liabilities and shareholders' equity, net of cash and cash equivalents. The calculation is set out in the following table:

	May 1, 2021	May 2, 2020
Long-term debt due within one year	$ 46.5	$ 570.0
Long-term debt	1,178.8	1,105.2
Lease liabilities due within one year	490.5	466.2
Long-term lease liabilities	5,417.6	4,800.0
Funded debt, including lease liabilities	7,133.4	6,941.4
Less cash and cash equivalents	890.5	1,008.4
Net funded debt	6,242.9	5,933.0
Shareholders' equity, net of non-controlling interest	4,372.7	3,924.6
Capital under management	$ 10,615.6	$ 9,857.6

The primary investments undertaken by the Company include additions to the selling square footage and renovations of its store network via the construction, expansion and improvements to existing stores. These additions and modifications to the store network include related leasehold improvements and the purchase of land bank sites for future store construction. The Company makes capital investments in information technology, customer fulfilment centres and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its investments and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program as well as share repurchases and dividend distributions to its shareholders. The cash flow is supplemented, when necessary, through the incurrence of additional debt or the issuance of additional capital stock.

Under the terms of existing debt agreements, three financial covenants are monitored on a quarterly basis by management to ensure compliance with the agreements. The covenants are: (i) adjusted total debt/EBITDA – calculated as net funded debt plus letters of credit, guarantees and commitments, divided by EBITDA (as defined by the credit agreements and for the previous 52 weeks); (ii) lease adjusted debt/EBITDAR – calculated as adjusted total debt plus eight times rent, divided by EBITDAR (as defined by the credit agreements and for the previous 52 weeks); and (iii) debt service coverage ratio – calculated as EBITDA, divided by interest expense plus repayments of long-term debt (as defined by the credit agreements and for the previous 52 weeks). The Company was in compliance with these covenants during the year.

31. Subsequent events

On March 16, 2021, Sobeys, through a wholly-owned subsidiary, signed an agreement to acquire 51% of the business of Longo's, a long-standing, family-built network of specialty grocery stores in the Greater Toronto Area of Ontario, and the Grocery Gateway e-commerce business, for a total purchase price of $357.0.

On May 4, 2021, Sobeys received a no-action letter from the Canadian Competition Bureau in relation to the Longo's transaction. The transaction subsequently closed on May 10, 2021. The transaction was financed through the issuance of 3,187,348 Empire Non-Voting Class A shares to the vendors at a price of $39.22 per share, representing $125.0, cash of $193.6 and acquired debt of $38.4. The purchase price is subject to final closing adjustments.

On May 19, 2021, Crombie REIT announced it had closed a bought-deal public offering of units at a price of $16.60 per unit for aggregate proceeds of $100.0. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 of Class B LP units to maintain a 41.5% interest in Crombie REIT.

Subsequent to the year ended May 1, 2021, the Company purchased for cancellation 5,272,860 Non-Voting Class A shares at a weighted average price of $37.83 for a total consideration of $199.5.

Eleven-Year Financial Review

SUPPLEMENTARY INFORMATION – UNAUDITED

Year Ended[1]	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Financial Results ($ in millions)											
Sales	$ **28,268.3**	$ 26,588.2	$ 25,142.0	$ 24,214.6	$ 23,806.2	$ 24,618.8	$ 23,928.8	$ 20,957.8	$ 17,343.9	$ 16,249.1	$ 15,956.8
Operating income (loss)	**1,299.5**	1,111.8	652.3	346.5	333.0	(2,418.5)	742.4	326.7	573.2	534.3	525.7
Adjusted operating income	**1,299.5**	1,130.1	683.6	601.7	378.5	713.7	867.0	639.7	553.4	513.9	500.4
EBITDA	**2,143.8**	1,892.4	1,069.5	785.7	777.2	(1,944.7)	1,224.9	753.5	918.1	876.6	863.0
Adjusted EBITDA	**2,143.8**	1,892.4	1,076.2	1,014.7	796.9	1,161.4	1,321.9	1,052.8	942.9	856.2	837.7
Finance costs, net	**269.4**	279.1	91.6	110.5	118.0	137.4	155.1	131.4	55.4	59.9	75.4
Income tax expense (recovery)	**265.9**	219.9	144.3	56.2	42.5	(441.3)	150.4	36.3	136.4	122.3	122.0
Non-controlling interest	**62.7**	29.3	29.1	20.3	14.0	16.4	17.9	8.0	9.1	12.7	9.0
Net earnings (loss)[2]	**701.5**	583.5	387.3	159.5	158.5	(2,131.0)	419.0	235.4	379.5	339.4	400.6
Adjusted net earnings[2]	**701.5**	596.8	410.0	344.3	191.3	410.2	511.0	390.6	390.7	322.7	303.2
Financial Position ($ in millions)											
Total assets	**15,173.9**	14,632.9	9,602.4	8,662.0	8,695.5	9,138.5	11,497.2	12,236.6	7,140.4	6,913.1	6,518.6
Long-term debt (excluding current portion)	**1,178.8**	1,105.2	1,984.4	1,139.5	1,736.8	2,017.0	2,230.2	3,282.1	915.9	889.1	1,090.3
Shareholders' equity, net of non-controlling interest	**4,372.7**	3,924.6	4,003.3	3,702.8	3,644.2	3,623.9	5,986.7	5,700.5	3,724.8	3,396.3	3,162.1
Per Share Data on a Fully Diluted Basis ($ per share)											
Net earnings (loss)[2]	**2.60**	2.15	1.42	0.59	0.58	(7.78)	1.51	0.98	1.86	1.66	1.96
Adjusted net earnings[2]	**2.60**	2.20	1.50	1.27	0.70	1.50	1.84	1.62	1.91	1.58	1.48
Dividends											
Non-Voting Class A shares	**0.520**	0.480	0.440	0.420	0.410	0.400	0.360	0.347	0.320	0.300	0.267
Class B common shares	**0.520**	0.480	0.440	0.420	0.410	0.400	0.360	0.347	0.320	0.300	0.267
Book value	**16.30**	14.51	14.72	13.62	13.40	13.23	21.61	20.59	18.27	16.66	15.49
Share Price, Non-Voting Class A Shares ($ per share)											
High	**40.59**	37.36	31.11	26.15	22.56	30.79	31.60	27.75	22.88	21.00	19.71
Low	**29.97**	24.29	22.69	18.74	15.00	20.23	21.67	21.68	17.85	17.57	17.02
Close	**38.66**	31.01	29.94	25.01	21.50	21.09	29.15	22.88	22.86	19.21	18.05
Diluted weighted average number of shares outstanding (in millions)	$ **269.3**	271.4	272.6	272.1	272.0	274.0	277.2	240.6	204.2	204.2	204.6

(1) Fiscal years end the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc. Financial data for fiscal 2020 and 2021 is impacted by the implementation of IFRS 16, "Leases". Fiscal 2011 and 2016 are 53-week years.

(2) Attributable to owners of the Company

Shareholder and Investor Information

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Telephone: (902) 752-8371
Fax: (902) 755-6477
www.empireco.ca

Investor Relations and Inquiries

Shareholders, analysts and investors should direct their financial inquiries or requests to:

E-mail: investor.relations@empireco.ca

Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, AST Trust Company (Canada)

Affiliated Company Web Address

www.sobeyscorporate.com

Transfer Agent

AST Trust Company (Canada)
Investor Correspondence
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3
Telephone: 1-800-387-0825
E-mail: inquiries@astfinancial.com

Multiple Mailings

If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact AST Trust Company (Canada) at 1-800-387-0825 to eliminate the multiple mailings.

Shareholders' Annual General Meeting

September 9, 2021 at 11:00 a.m. (ADT)

Virtually via live audio webcast at:
https://web.lumiagm.com/415062016
Password: empire2021 (case sensitive)

Dial-in number (listen mode only):
1-866-428-0907

Dividend Record and Payment Dates for Fiscal 2022

Record Date	Payment Date
July 15, 2021	July 30, 2021
October 15, 2021*	October 29, 2021*
January 14, 2022*	January 31, 2022*
April 14, 2022*	April 29, 2022*

*Subject to approval by the Board of Directors.

Outstanding Shares

As at June 21, 2021	
Non-Voting Class A shares	169,368,174
Class B common shares, voting	98,138,079

Stock Exchange Listing

The Toronto Stock Exchange

Stock Symbol

Non-Voting Class A shares – EMP.A

Solicitors

Stewart McKelvey
Halifax, Nova Scotia

Auditor

PricewaterhouseCoopers, LLP
Halifax, Nova Scotia

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