EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER ENDED JULY 31, 2021

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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 first quarter ended July 31, 2021 compared to the first quarter ended August 1, 2020. The MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the first quarter ended July 31, 2021 and the audited annual consolidated financial statements and the related MD&A for the fiscal year ended May 1, 2021. Additional information about the Company can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting" as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended May 1, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The unaudited interim condensed 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 September 8, 2021 unless otherwise noted. There have been no material changes to disclosures as contained in the "Critical Accounting Estimates", "Contingencies" or "Risk Management" sections of the Company's MD&A for the fiscal year ended May 1, 2021 other than as noted in this MD&A.

FORWARD-LOOKING INFORMATION

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

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

- The Company's expectations regarding the financial impact and benefits of Project Horizon and its underlying initiatives, 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 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 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 future shutdowns or eased public health restrictions 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 expectations regarding an increase in fuel sales, which could be impacted by future shutdowns and travel restrictions implemented by government authorities;

- The Company's plans to further grow sales and profitability of its Own Brands, which may be impacted by future operating costs and customer response;

- The Company's expectation that it will incur approximately $10 million in the second quarter in selling and administrative expenses to respond to COVID-19, which may be impacted by future shutdowns or eased public health restrictions due to COVID-19 and safety precautions and transitions required;
- The Company's expectations that fiscal 2022 will reflect the highest net earnings dilution for the Voilà program as the Toronto site continues to grow and is expected to begin to reflect positive results towards the end of the third year of operations, partially offset by the increasing costs of the Montreal and Calgary sites as they are built, and plans to expand its Curbside Pickup service, all of 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 estimates regarding future capital expenditures, 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; 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 the fiscal 2021 annual 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 $28.5 billion in annual sales and $15.9 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 134,000 people.

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.

Company Strategy

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 on track to achieve 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, the addition of new stores, 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.

In the first quarter of fiscal 2022, earnings continued to be positively impacted by strategic initiatives including continued expansion and renovation of the store network, promotional optimization, data analytics and strategic sourcing efficiencies. Benefits were partially offset by the investment in the Company's e-commerce network. Management expects these factors will continue to drive the majority of benefits through the remainder of fiscal 2022.

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 Own Brands portfolio, continuing the Western discount business expansion, increasing the Farm Boy footprint in Ontario and the acquisition of Longo's in Ontario which occurred in the first quarter of fiscal 2022.

Invest in the Company's Store Network

The Company is accelerating investments in renovations and conversions, store processes, communications, training, technology and tools. 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 Customer Fulfilment Centre ("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. 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 Own Brands Portfolio

The Company has improved its Own Brands' positioning and branding. The Company reviews the specific role of Own Brands in each category and determines which categories and banners to expand based on consumer needs. Working closely with its supply partners, the Company plans to further grow sales and profitability of its Own 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 margins 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.

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 Updates

Farm Boy

The acquisition of Farm Boy on December 10, 2018 added 26 locations to the Ontario store network with plans to double the store count in five years from the acquisition date, mainly in the Greater Toronto Area ("GTA"). During the first quarter, the Company opened three new locations and expects to open four additional Farm Boy sites in Ontario, net of one closure, in the remainder of fiscal 2022 for a total of seven new stores.

At the end of the quarter, 40 Farm Boy stores are currently open and operating, with five additional stores in different stages of development.

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.

During the first quarter, the Company opened one location and expects to open eleven additional FreshCo sites in Western Canada in the remainder of fiscal 2022. The Company expects to have 40 locations open in Western Canada by the end of fiscal 2022.

As at September 8, 2021:

- 29 stores are currently open and operating:
  - 16 in British Columbia ("B.C.")
  - 6 in Manitoba
  - 5 in Saskatchewan
  - 2 in Alberta
- 11 stores are expected to open in the remainder of fiscal 2022:
  - 10 in Alberta
  - 1 in Northern Ontario
- 2 stores have been announced and are expected to open in Alberta in fiscal 2023

Business Acquisition

On March 16, 2021, the Company announced 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. The purchase price was based on a total enterprise value of $700.0 million, subject to customary closing adjustments. The Company financed the transaction through the issuance of 3,187,348 Non-Voting Class A shares with a fair value transaction price of $129.6 million, cash of $196.6 million and a contingent note payable of $10.7 million. The acquisition closed effective May 10, 2021.

After the fifth anniversary of the transaction, the Longo's shareholders have an option to sell up to a 12.25% interest to Sobeys per annum, at a multiple applied to the last 12 months EBITDA, that will vary depending on achievement of certain business results. If Longo's shareholders exercise an option to sell, Sobeys will have a corresponding call option for the same percentage in the following year. After the tenth anniversary of the transaction, both Sobeys and Longo's have mutual put and call options for any remaining minority shares outstanding. A financial liability of $239.7 million has been recognized at the date of acquisition.

Store Closure and Conversion Costs

During the first quarter ended July 31, 2021, the Company expensed $6.3 million in store closure and conversion costs related to FreshCo conversions. In the first quarter of the prior year $11.4 million was charged to earnings related to FreshCo and Farm Boy conversions.

During the first quarter, the Company engaged in lease termination transactions which resulted in $11.6 million of other income (2021 – $nil).

Ratification of New Collective Bargaining Agreement in Alberta

During the first quarter of fiscal 2020, 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 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 $15.6 million associated with this CBA was charged to operating earnings during the first quarter of fiscal 2021.

Supply Chain

During the fourth quarter of fiscal 2021, 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 of fiscal 2021, the Company opened a new distribution centre in B.C., which consolidates three previous distribution centres into one facility, increasing capacity and efficiency in the network.

Sustainable Business Reporting

Environmental, Social and Governance (“ESG”) has deep roots in the Company’s history, and the principles of ESG have been a part of the organization since the Company started 114 years ago. The Company is focused on several initiatives as part of a continuing ESG journey such as: working to remove plastics from the business, specifically focusing on avoidable and hard-to-recycle plastics that source to the stores and in the Company’s Own Brands packaging; expanding the Company’s efforts to cultivate a fair, equitable and inclusive environment for all; embedding sustainable business mandates within the Company’s performance management goals; and completing an extensive assessment of the Company’s greenhouse gas emissions. The executive team reviewed a broad range of ESG issues that are important to stakeholders and long-term business success and creates shared value for the Company’s stakeholders, business and shareholders.

The publication of the Company’s 2021 Sustainable Business Report in August 2021 marks the next step in the Company’s sustainability journey. This is the first year the Company is reporting according to the Sustainable Accounting Standards Board (SASB) Food Retailers and Distributors Standard. This disclosure provides transparency and data on the Company’s progress in core ESG areas in the business and industry.

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 services the GTA, Barrie, Kitchener, Waterloo, Guelph, Hamilton, Niagara, St. Catharines and Brantford. The format continues to exceed its operational targets.

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 intends to operate 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. In the first quarter of fiscal 2022, the Company added 5 locations and expects to add up to 85 further locations in the remainder of fiscal 2022. 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 $0.05 dilutive impact after tax on Empire's earnings per share in the first quarter of fiscal 2022 (2021 – $0.05).

In Canada, online grocery sales have continued to grow, although at a slower pace than when COVID-19 began. In the first quarter of fiscal 2022, sales remained consistent for the Company's three e-commerce formats, excluding Grocery Gateway, compared to the prior year.

OUTLOOK

The Company expects that fiscal 2022 will continue to be affected by the COVID-19 pandemic, with some normalization of business throughout the year as vaccination rates increase and COVID-19 restrictions are relaxed. Management has observed increased levels of food consumption outside of the home and related reductions in grocery industry volumes and expects to see these trends to continue. As restrictions ease, consumers are expected to shop more frequently and at more grocery stores. Grocery formats that experienced lower relative growth during the pandemic lockdowns, such as discount, should experience higher relative sales. The Company does not expect grocery consumer behaviour to return fully to pre-pandemic levels for the foreseeable future. As economic activity increases and travel restrictions reduce, fuel volumes have increased and will likely continue to do so during the remainder of fiscal 2022.

The Company'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.

During the first quarter, the cost of maintaining safety and sanitization measures was approximately $18 million (first quarter of fiscal 2021 – $67 million). In the second quarter of fiscal 2022, it is expected the Company will incur approximately $10 million (second quarter of fiscal 2021 - $14 million) in selling and administrative expenses related to the increased cost of maintaining safety and sanitization measures, and other COVID-19 related costs.

The Company expects that same-store sales will continue to reduce in the remainder of fiscal 2022 as industry volumes decrease compared to the unusually high COVID-19 driven sales impacts in fiscal 2021. Margins will continue to benefit from Project Horizon initiatives, other operating improvements and the addition of Longo's. These benefits will be partially offset by effects of sales mix changes between banners and the impact on sales mix of increasing fuel sales.

The Company expects improvements in the results 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 and Calgary facilities begin operations and store pick e-commerce is implemented in up to 85 additional stores in the remainder of fiscal 2022. In total, the combination of improving results in Toronto, increasing costs in Montreal and Calgary 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 and is difficult to predict. The Company 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 its third year of operations.

When announcing the Project Horizon strategy, management estimated an increase of $500 million in EBITDA over the three-year period, excluding COVID-19 impacts. At that time, based on the last 12 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. Management continues to expect the Company will achieve its three-year Project Horizon strategy targets. However, due to significant positive impacts on sales and earnings related to COVID-19 in fiscal 2021, growth rates in fiscal 2022 for same-store sales and net earnings are expected to be lower.

SUMMARY RESULTS – FIRST QUARTER

($ in millions, except per share amounts)	13 Weeks Ended July 31, 2021	13 Weeks Ended August 1, 2020	$ Change	% Change
Sales	**$ 7,626.0**	$ 7,354.2	$ 271.8	3.7%
Gross profit[1]	**1,912.2**	1,848.6	63.6	3.4%
Operating income	**347.4**	377.6	(30.2)	(8.0)%
EBITDA[1]	**581.9**	582.5	(0.6)	(0.1)%
Finance costs, net	**66.8**	70.7	(3.9)	(5.5)%
Income tax expense	**68.7**	90.1	(21.4)	(23.8)%
Non-controlling interest	**23.4**	24.9	(1.5)	(6.0)%
Net earnings[2]	**188.5**	191.9	(3.4)	(1.8)%
Basic earnings per share				
Net earnings[2]	**$ 0.71**	$ 0.71		
Basic weighted average number of shares outstanding (in millions)	**267.0**	269.0		
Diluted earnings per share				
Net earnings[2]	**$ 0.70**	$ 0.71		
Diluted weighted average number of shares outstanding (in millions)	**268.1**	269.8		
Dividend per share	**$ 0.15**	$ 0.13		

	13 Weeks Ended July 31, 2021	13 Weeks Ended August 1, 2020
Gross margin[1]	**25.1%**	25.1%
EBITDA margin[1]	**7.6%**	7.9%
Same-store sales[1] (decline) growth	**(0.5)%**	8.6%
Same-store sales (decline) growth, excluding fuel	**(2.2)%**	11.0%
Effective income tax rate	**24.5%**	29.4%

Food Retailing

The following is a review of Empire's Food retailing segment's financial performance for the first quarter and year-to-date.

($ in millions)	13 Weeks Ended July 31, 2021	13 Weeks Ended August 1, 2020	$ Change	% Change
Sales	**$ 7,626.0**	$ 7,354.2	$ 271.8	3.7%
Gross profit	**1,912.2**	1,848.6	63.6	3.4%
Operating income	**337.3**	371.9	(34.6)	(9.3)%
EBITDA	**571.7**	576.6	(4.9)	(0.8)%
Net earnings[2]	**179.5**	189.3	(9.8)	(5.2)%

(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

Sales

Sales for the quarter ended July 31, 2021 increased by 3.7% driven by increased sales due to the acquisition of Longo's and higher fuel sales as a result of increased fuel prices and consumption in the current year. These increases were partially offset by reduced sales as a result of the stabilization of consumer buying behaviour as COVID-19 restrictions eased across the country.

Gross Profit

Gross profit for the first quarter increased by 3.4% primarily as a result of the inclusion of Longo's results, benefits from Project Horizon initiatives, including the use of advanced analytics promotional optimization tools, and the expansion of Farm Boy, FreshCo and Voilà. The increase is partially offset by reduced sales as a result of changes in consumer buying behaviour as COVID-19 restrictions are eased across the country.

Gross margin for the quarter of 25.1% remained consistent with the prior year. Excluding the effect of fuel mix, gross margin would have been 40 basis points higher compared to the prior year. Gross margin was positively affected by benefits from Project Horizon initiatives, the inclusion of Longo's results and service department recoveries resulting from closures in the prior year due to COVID-19, offset by the mix effect of higher fuel sales and sales mix changes between non-fuel banners.

Operating Income

($ in millions)	13 Weeks Ended **July 31, 2021**	 August 1, 2020	$ Change
Consolidated operating income:			
Food retailing	**$ 337.3**	$ 371.9	$ (34.6)
Investments and other operations:			
Crombie REIT	**7.4**	4.9	2.5
Genstar	**5.9**	2.6	3.3
Other operations, net of corporate expenses	**(3.2)**	(1.8)	(1.4)
	10.1	5.7	4.4
Operating income	**$ 347.4**	$ 377.6	$ (30.2)

For the quarter ended July 31, 2021, operating income decreased mainly due to a prior year $30.3 million gain on a significant sale of property and higher selling and administrative expenses. Selling and administrative expenses increased primarily as a result of the inclusion of Longo's results, execution of Project Horizon initiatives including the expansion of Farm Boy and Voilà in Ontario and FreshCo in Western Canada, and increased right-of-use asset depreciation and marketing costs. The increase was partially offset by lower COVID-19 costs in the quarter, lease termination transactions and costs associated with the finalization of a labour agreement in Alberta in the prior year.

EBITDA

For the quarter ended July 31, 2021, EBITDA decreased slightly to $581.9 million from $582.5 million in the prior year mainly as a result of the factors affecting operating income. EBITDA margin decreased to 7.6% from 7.9%. The decrease is primarily due to the prior year $30.3 million gain on a significant sale of property, offset by the prior year $15.6 million cost related to the Alberta labour agreement.

Finance Costs

For the quarter ended July 31, 2021, net finance costs decreased primarily due to lower interest expense on financial liabilities measured at amortized cost due to lower interest rates and debt levels, and lower interest expense on lease liabilities. The decrease is partially offset by a decrease in interest income on cash and cash equivalents.

Income Taxes

The effective income tax rate for the quarter ended July 31, 2021 was 24.5% compared to 29.4% in the same quarter last year. The effective rate was lower than the statutory rate primarily due to non-taxable capital items and differing tax rates of various entities. The prior year effective rate was higher than the statutory rate primarily due to a revaluation of deferred tax assets.

Net Earnings

	13 Weeks Ended		$
($ in millions, except per share amounts)	**July 31, 2021**	August 1, 2020	Change
Net earnings[1]	**$ 188.5**	$ 191.9	$ (3.4)
EPS[2] (fully diluted)	**$ 0.70**	$ 0.71	
Diluted weighted average number of shares outstanding (in millions)	**268.1**	269.8	

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

Investments and Other Operations

	13 Weeks Ended		$
($ in millions)	**July 31, 2021**	August 1, 2020	Change
Crombie REIT	**$ 7.4**	$ 4.9	$ 2.5
Genstar	**5.9**	2.6	3.3
Other operations, net of corporate expenses	**(3.2)**	(1.8)	(1.4)
	$ 10.1	$ 5.7	$ 4.4

For the quarter ended July 31, 2021, income from Investments and other operations increased primarily as a result of higher equity earnings from Genstar due to increased property sales in the current year and from higher equity earnings from Crombie REIT primarily driven by improvements in levels of bad debt expense.

QUARTERLY RESULTS OF OPERATIONS

	Fiscal 2022	Fiscal 2021				Fiscal 2020		
($ in millions, except per share amounts)	**Q1 (13 Weeks) Jul. 31, 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	Q4 (13 Weeks) May 2, 2020	Q3 (13 Weeks) Feb. 1, 2020	Q2 (13 Weeks) Nov. 2, 2019
Sales	**$ 7,626.0**	$ 6,920.0	$ 7,018.7	$ 6,975.4	$ 7,354.2	$ 7,012.4	$ 6,395.2	$ 6,436.5
Operating income	**347.4**	295.0	320.4	306.5	377.6	324.3	235.0	286.4
EBITDA(1)	**581.9**	514.4	533.5	513.4	582.5	527.8	426.9	477.7
Net earnings(2)	**188.5**	171.9	176.3	161.4	191.9	177.8	120.5	154.6
Per share information, basic								
Net earnings(2)	**$ 0.71**	$ 0.65	$ 0.66	$ 0.60	$ 0.71	$ 0.66	$ 0.45	$ 0.57
Basic weighted average number of shares outstanding (in millions)	**267.0**	266.5	268.1	269.0	269.0	269.0	269.7	271.3
Per share information, diluted								
Net earnings(2)	**$ 0.70**	$ 0.64	$ 0.66	$ 0.60	$ 0.71	$ 0.66	$ 0.45	$ 0.57
Diluted weighted average number of shares outstanding (in millions)	**268.1**	267.6	269.1	270.1	269.8	269.7	270.6	272.4

(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 eight quarters, results have fluctuated due to the impacts of COVID-19 and the shift in consumer shopping behaviour. This shift led to higher sales starting in the fourth quarter of fiscal 2020. Sales began to stabilize in the fourth quarter of fiscal 2021 with the easing of restrictions but continue to trend high and compare favourably to pre-pandemic levels. This trend will continue to affect results throughout fiscal 2022.

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 of the fiscal 2021 annual MD&A.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights significant cash flow components for the relevant periods. For additional detail, please refer to the condensed consolidated statements of cash flows in the Company's unaudited interim condensed consolidated financial statements for the quarter ended July 31, 2021.

	13 Weeks Ended			
($ in millions)		**July 31, 2021**		August 1, 2020
Cash flows from operating activities	**$**	**424.6**	$	399.4
Cash flows used in investing activities		**(469.2)**		(104.0)
Cash flows used in financing activities		**(340.8)**		(227.2)
(Decrease) increase in cash and cash equivalents	**$**	**(385.4)**	$	68.2

Operating Activities

Cash flows from operating activities for the first quarter increased primarily as a result of favourable working capital changes compared to the prior year, partially offset by a change in income taxes payable. In the first quarter ended August 1, 2020, the Company's working capital decreased as a result of the reversal of favourable working capital impacts in the fourth quarter of fiscal 2020 when COVID-19 driven activity increased accounts payable.

Investing Activities

The table below outlines details of investing activities of the Company for the quarter ended July 31, 2021 compared to the quarter ended August 1, 2020:

	13 Weeks Ended			
($ in millions)		**July 31, 2021**		August 1, 2020
Increase in investments	**$**	**(41.5)**	$	-
Acquisitions of property, equipment, investment property and intangibles		**(215.0)**		(145.4)
Proceeds on disposal of assets[(1)] and lease terminations		**10.4**		23.5
Leases and other receivables, net		**(8.5)**		(2.7)
Other assets and other long-term liabilities		**(25.8)**		2.1
Business acquisitions		**(202.4)**		(3.1)
Payments received for finance subleases		**12.9**		19.6
Interest received		**0.7**		2.0
Cash flows used in investing activities	**$**	**(469.2)**	$	(104.0)

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

Cash used in investing activities for the first quarter increased primarily as a result of the acquisition of Longo's, higher capital investments and the purchase of $41.5 million of Crombie REIT Class B limited partnership units ("Class B LP units").

Capital Expenditures

The Company invested $147.0 million in capital expenditures[1] for the quarter ended July 31, 2021 (2021 – $119.8 million), including renovations and construction of new stores, investments in e-commerce fulfilment centres, FreshCo locations in Western Canada, and investments in advanced analytics technology and other technology systems.

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 expects to invest approximately 15% of its capital expenditures 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 expenditures are 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 ended July 31, 2021 compared to the prior year.

	13 Weeks Ended	
# of stores	**July 31, 2021**	August 1, 2020
Opened/relocated/acquired[1][2]	**41**	10
Rebannered/redeveloped	**5**	2
Closed[1]	**5**	3
Opened - FreshCo[3]	**1**	7
Closed - pending conversion to FreshCo[3]	**1**	2
Opened - Farm Boy	**3**	-
Closed - pending conversion to Farm Boy	**-**	-

(1) Total impact excluding the expansion of Farm Boy and FreshCo.
(2) Includes 36 Longo's stores that were acquired in the quarter.
(3) Specific to converted Western Canada FreshCo stores.

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended July 31, 2021:

Square feet (in thousands)	**13 Weeks Ended July 31, 2021**	**52 Weeks Ended July 31, 2021**
Opened	**57**	**1,537**
Rebannered/redeveloped	**35**	**67**
Acquired[1]	**1,311**	**-**
Expanded	**-**	**11**
Closed	**(70)**	**(332)**
Net change before the impact of the expansion of Farm Boy and FreshCo	**1,333**	**1,283**
Opened - FreshCo[2]	**33**	**209**
Closed - pending conversion to FreshCo[2]	**(26)**	**(87)**
Opened - Farm Boy	**84**	**248**
Closed - pending conversion to Farm Boy	**-**	**(135)**
Net change	**1,424**	**1,518**

(1) Related to the acquisition of Longo's.
(2) Specific to converted Western Canada FreshCo stores, net of Safeway and Sobeys closures.

At July 31, 2021, Sobeys' retail space totalled 41.7 million square feet, a 3.7% increase compared to 40.2 million square feet at August 1, 2020.

Financing Activities

For the quarter ended July 31, 2021, cash used in financing activities increased due to the repurchase of Non-Voting Class A shares, partially offset by the timing of lease payments due to the reporting quarter end date.

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 July 31, 2021	13 Weeks Ended August 1, 2020	$ Change
Cash flows from operating activities	**$ 424.6**	$ 399.4	$ 25.2
Add: proceeds on disposal of assets[1] and lease terminations	**10.4**	23.5	(13.1)
Less: payments of lease liabilities, net of payments received for finance subleases	**(104.5)**	(132.4)	27.9
Less: acquisitions of property, equipment, investment property and intangibles	**(215.0)**	(145.4)	(69.6)
Free cash flow[2]	**$ 115.5**	$ 145.1	$ (29.6)

(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 July 31, 2021 primarily as a result of higher capital investments. The decrease was partially offset by favourable working capital changes affecting cash flows from operating activities, specifically related to accounts payable, compared to the prior year.

Employee Future Benefit Obligations

For the first quarter ended July 31, 2021, the Company contributed $4.2 million (2021 – $3.7 million) to its registered defined benefit plans. The Company expects to contribute approximately $22.3 million to these plans in fiscal 2022.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		**July 31, 2021**		May 1, 2021		August 1, 2020
Shareholders' equity, net of non-controlling interest	**$**	**4,587.5**	$	4,372.7	$	4,065.7
Book value per common share[1]	**$**	**17.18**	$	16.30	$	15.11
Long-term debt, including current portion	**$**	**1,228.1**	$	1,225.3	$	1,656.4
Long-term lease liabilities, including current portion	**$**	**6,168.2**	$	5,908.1	$	5,382.0
Net funded debt to net total capital[1]		**60.0%**		58.8%		59.5%
Funded debt to EBITDA[1][2]		**3.5x**		3.3x		3.5x
EBITDA to interest expense[1][3]		**8.1x**		8.0x		7.2x
Trailing four-quarter EBITDA	**$**	**2,143.2**	$	2,143.8	$	2,014.9
Trailing four-quarter interest expense	**$**	**263.9**	$	268.8	$	278.6
Current assets to current liabilities		**0.8x**		0.9x		0.9x
Total assets	**$**	**15,922.6**	$	15,173.9	$	14,800.3
Total non-current financial liabilities	**$**	**7,651.4**	$	7,187.7	$	6,709.4

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Calculation uses trailing four-quarter EBITDA.
(3) Calculation uses trailing four-quarter EBITDA and interest expense.

Sobeys' credit ratings remained unchanged from the prior quarter. The following table shows Sobeys' credit ratings as at July 31, 2021:

Rating Agency	**Credit Rating (Issuer rating)**	**Trend/Outlook**
Dominion Bond Rating Service	BBB (low)	Stable
Standard & Poor's	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 July 31, 2021, the outstanding amount of the credit facility was $75.3 million (2021 – $53.9 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 July 31, 2021, the outstanding amount of the facility was $ nil (2021 – $ nil) and Sobeys has issued $85.8 million in letters of credit against the facility (2021 – $76.1 million). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

Through the acquisition of Longo's on May 10, 2021, Sobeys acquired their existing $75.0 million demand operating line of credit. As of July 31, 2021, the outstanding amount of the facility was $48.8 million (2021 – $ nil). Interest payable on this facility fluctuates with changes in the Canadian prime rate.

On June 2, 2017, Sobeys established a senior, unsecured non-revolving credit facility for $500.0 million. During the second quarter of fiscal 2021, 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 of fiscal 2021, this facility, originally scheduled to mature on December 10, 2020, was fully repaid.

The Company believes its cash and cash equivalents on hand, approximately $765 million in unutilized, aggregate credit facilities as of July 31, 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. The Company mitigates potential liquidity risk by ensuring its sources of funds are diversified by term to maturity and source of credit.

Shareholders' Equity

The Company's share capital was comprised of the following on July 31, 2021:

Authorized	Number of Shares July 31, 2021	August 1, 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	**757,712,924**	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	July 31, 2021	August 1, 2020
Non-Voting Class A shares	**167,315,905**	**$ 2,054.4**	$ 2,009.8
Class B common shares	**98,138,079**	**7.3**	7.3
Shares held in trust	**(46,576)**	**(0.9)**	(1.5)
Total		**$ 2,060.8**	$ 2,015.6

The Company's share capital on July 31, 2021 compared to the same period in the last fiscal year is shown in the table below:

(Number of Shares)	13 Weeks Ended July 31, 2021	August 1, 2020
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**167,323,301**	170,971,038
Issued during period	**3,263,686**	73,568
Purchased for cancellation	**(3,271,082)**	-
Issued and outstanding, end of period	**167,315,905**	171,044,606
Shares held in trust, beginning of period	**(46,512)**	(163,497)
Issued for future settlement of equity settled plans	**-**	89,604
Purchased for future settlement of equity settled plans	**(64)**	(371)
Shares held in trust, end of period	**(46,576)**	(74,264)
Issued and outstanding, net of shares held in trust, end of period	**167,269,329**	170,970,342
Class B common shares		
Issued and outstanding, beginning and end of period	**98,138,079**	98,138,079

During the first quarter of fiscal 2022, the Company paid common dividends of $39.9 million (2021 – $35.0 million) to its common shareholders. This represents a payment of $0.15 per share (2021 – $0.13 per share) for common shareholders.

As at September 7, 2021, the Company had Non-Voting Class A and Class B common shares outstanding of 167,408,579 and 98,138,079, respectively. Options to acquire 5,379,714 Non-Voting Class A shares were outstanding as of July 31, 2021 (August 1, 2020 – 5,379,714). As at September 7, 2021, options to acquire 4,504,933 Non-Voting Class A shares were outstanding (September 8, 2020 – 5,358,018).

Normal Course Issuer Bid ("NCIB")

On June 18, 2020, the Company filed a notice of intent with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 5.0 million Non-Voting Class A shares ("Class A shares") representing approximately 3.0% of Class A shares outstanding. The NCIB was amended on April 19, 2021 to purchase up to 8,548,551 Class A shares representing approximately 5.0% of the Class A shares outstanding and expired on July 1, 2021. As of July 1, 2021, under this filing, the Company purchased 6,063,806 Class A shares at a weighted average price of $38.00 for a total consideration of $230.4 million.

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. 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. The NCIB expires on July 1, 2022.

Shares purchased under the Company's NCIB for the first quarter ended July 31, 2021 are shown in the table below:

	13 Weeks Ended	
($ in millions, except per share amounts)	**July 31, 2021**	August 1, 2020
Number of shares	**3,271,082**	-
Weighted average price per share	**$ 39.74**	$ -
Cash consideration paid	**$ 130.0**	$ -

Including purchases made subsequent to the end of the quarter, as at September 7, 2021, the Company has purchased 3,349,282 Class A shares (September 8, 2020 – nil) at a weighted average price of $39.75 (September 8, 2020 – $ nil) for a total consideration of $133.1 million (September 8, 2020 – $ nil).

ACCOUNTING STANDARDS AND POLICIES

The unaudited interim condensed consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 1, 2021.

Standards, Amendments and Interpretations Issued but not yet Adopted

In May 2021, the IASB issued amendments to IAS 12, "Income Taxes". The amendments require deferred tax assets and liabilities to be recognized for transactions that result in both deductible and taxable temporary differences of the same amount at initial recognition. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the potential impact of these targeted amendments.

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

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2021 annual MD&A.

Internal Control Over Financial Reporting

Management of the Company, which includes the President & Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is "*Internal Control Integrated Framework (2013*)" published by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in the Company's ICFR during the period beginning May 2, 2021 and ended July 31, 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% (2021 – 41.5%) ownership interest in Crombie REIT and accounts for its investment using the equity method.

Crombie REIT has instituted a distribution reinvestment 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.

During the period ended July 31, 2021, Sobeys, through a wholly-owned subsidiary, sold and leased back one property to Crombie REIT for cash consideration of $4.7 million resulting in a pre-tax gain of $0.3 million.

During the period ended July 31, 2021, Sobeys, through wholly-owned subsidiaries, engaged in lease modification termination transactions with Crombie REIT. These transactions resulted in pre-tax other income of $11.6 million (August 1, 2020 – $ nil) and have been recognized within other income on the unaudited interim condensed consolidated statements of earnings.

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.

During the period ended August 1, 2020, Sobeys, through a wholly-owned subsidiary, sold and leased back one property to Crombie REIT for cash consideration of $2.9 million resulting in a pre-tax gain of $ nil.

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

Risk and uncertainties related to economic and industry factors and the Company's management of risk are discussed in detail in the fiscal 2021 annual MD&A.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

NON-GAAP FINANCIAL MEASURES & FINANCIAL METRICS

There are measures and metrics included in this MD&A that do not have a standardized meaning under generally accepted accounting principles ("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:

($ in millions)	13 Weeks Ended **July 31, 2021**	 August 1, 2020
Net earnings	**$ 211.9**	$ 216.8
Income tax expense	**68.7**	90.1
Finance costs, net	**66.8**	70.7
Operating income	**347.4**	377.6
Depreciation	**213.5**	185.8
Amortization of intangibles	**21.0**	19.1
EBITDA	**$ 581.9**	$ 582.5

- 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:

($ in millions)	13 Weeks Ended **July 31, 2021**	 August 1, 2020
Finance costs, net	**$ 66.8**	$ 70.7
Plus: finance income, excluding interest income on lease receivables	**1.9**	3.1
Less: pension finance costs, net	**(1.9)**	(2.0)
Less: accretion expense on provisions	**(0.8)**	(0.9)
Interest expense	**$ 66.0**	$ 70.9

- 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 July 31, 2021, May 1, 2021 and August 1, 2020, respectively:

($ in millions)	**July 31, 2021**	May 1, 2021	August 1, 2020
Long-term debt due within one year	**$ 101.1**	$ 46.5	$ 569.2
Long-term debt	**1,127.0**	1,178.8	1,087.2
Lease liabilities due within one year	**560.6**	490.5	425.4
Long-term lease liabilities	**5,607.6**	5,417.6	4,956.6
Funded debt	**7,396.3**	7,133.4	7,038.4
Less: cash and cash equivalents	**(505.1)**	(890.5)	(1,076.6)
Net funded debt	**6,891.2**	6,242.9	5,961.8
Total shareholders' equity, net of non-controlling interest	**4,587.5**	4,372.7	4,065.7
Net total capital	**$ 11,478.7**	$ 10,615.6	$ 10,027.5

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.

- 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 July 31, 2021, May 1, 2021 and August 1, 2020:

($ in millions, except per share information)		**July 31, 2021**		May 1, 2021		August 1, 2020
Shareholders' equity, net of non-controlling interest	**$**	**4,587.5**	$	4,372.7	$	4,065.7
Shares outstanding (basic)		**267.0**		268.3		269.0
Book value per common share	**$**	**17.18**	$	16.30	$	15.11

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

Approved by Board of Directors: September 8, 2021
Stellarton, Nova Scotia, Canada