EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SECOND QUARTER AND YEAR-TO-DATE ENDED OCTOBER 31, 2020

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 second quarter and year-to-date ended October 31, 2020 compared to the second quarter and year-to-date ended November 2, 2019. The MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the second quarter and year-to-date ended October 31, 2020 and the audited annual consolidated financial statements and the related MD&A for the fiscal year ended May 2, 2020. 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 2, 2020, 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 December 9, 2020 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 2, 2020 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 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, 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 and conversions, all of which may be impacted by COVID-19, construction schedules and permits, the economic environment and labour relations;

- 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 $0.20 per share in fiscal 2021, which may be impacted by COVID-19, future operating and capital costs, the customer response to the service and the performance of its business partner, Ocado Group plc ("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 the shutdown due to COVID-19, the severity of the pandemic across Canada, the ability for restaurants and hospitality businesses to re-open and resume operations as well as the ongoing demand for restaurants and hospitality services in the near term;

- The Company's same-store sales disclosure for the first five weeks of the third quarter of fiscal 2021 is not necessarily indicative of future performance;

- The Company's expectation that it will continue to incur approximately $15 million to $20 million per quarter in selling and administrative expenses, including up to $5 million per quarter in costs related to its temporary Lockdown Bonus for frontline employees in Manitoba and certain regions of Ontario, and additional spending required to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19, the severity of the pandemic on people's health across Canada, 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 the second Customer Fulfilment Centre ("CFC") in Montreal and the third CFC in Calgary, Alberta, which may be impacted by supply of materials and equipment, construction schedules and performance 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 as well as 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 the normal course issuer bid which may be impacted by market and economic conditions, availability of sellers, 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 the fiscal 2020 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 $27.7 billion in annual sales and $14.6 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 127,000 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, and Lawtons Drugs, and operates grocery e-commerce under banners *Voilà by Sobeys*, 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 different levels of restrictions by government authorities and the encouragement for Canadians to practice public health measures such as staying at home, social distancing and wearing masks. This has continued to lead 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 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, the spread and intensity of the virus, and ultimately, when a vaccine is widely accessible. Ahead of the potential increase in lockdowns and the holiday season, the Company has invested in a strong in-stock position. The Company's balance sheet and cash flow remain strong. As of October 31, 2020, the Company had $756 million in cash and cash equivalents, and had access to approximately $756 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.

In Canada, online grocery sales have continued to grow, although at a slower pace than when COVID-19 began. The Company's e-commerce business experienced sales growth of 241% in the second quarter compared to the prior year.

As Canada and the world adapt and progress in these unprecedented times, it is too early to forecast sales in the medium term. Over the first five weeks of the third quarter, the Company's same-store sales growth, excluding fuel, has ranged from 8% to 13%, averaging 11%.

Subsequent to the end of the second quarter, the Manitoba and Ontario governments implemented new lockdown restrictions. The Company introduced a temporary Lockdown Bonus for frontline employees in stores and distribution centres in Manitoba and certain regions of Ontario. The Lockdown Bonus could also be introduced in additional geographies as government-mandated lockdowns are put in place. The cost of these bonuses will be dependent on how long the lockdowns last and how many regions are impacted. The Company estimates the cost for Manitoba and Ontario combined could be up to $5 million per quarter, assuming the current lockdowns continue for the entire quarter.

During the second quarter, the cost of maintaining sanitization and safety measures increased selling and administrative expenses by approximately $14 million. Including the Lockdown Bonus, it is expected that the Company will continue to incur approximately $15 million to $20 million in selling and administrative expenses per quarter related to the increased cost of maintaining sanitization and safety measures, lockdown bonuses and other COVID-19 related costs.

Strategic Focus

In the first quarter of fiscal 2021, the Company launched its new three-year strategy, Project Horizon, a growth plan focused on core business expansion and e-commerce acceleration. 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.

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 and increasing the Farm Boy footprint in Ontario.

Invest in the Company's Store Network

The Company will accelerate investment in physical assets, through renovations and conversions, and store processes, communications, training, technology and tools. This will provide the Company's store teammates with further capabilities and tools 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 estimates of future capital spending, averaging $700 million annually over the next three years.

Improve Store Space Productivity

During Project Sunrise, the Company began building the foundation of its advanced analytics capabilities. Analytics will drive improvements in customer facing elements such as store footprints, customer promotions and availability of product on shelf. With category resets complete, which provides an improved and simplified product assortment for customers, the Company is able 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 is accelerating its plans for the remaining two Voilà e-commerce CFCs – for a total of four CFCs across Canada – and introducing Ocado's store pick solution. This store pick solution will serve customers in areas where the CFCs will not deliver, or are not yet built. In September, the Company launched the new curbside pickup service at three Sobeys store locations in Nova Scotia and will expand Voilà Curbside Pickup to stores across Canada over the next few years. Ocado's store pick solution is live and successful in various cities around the world.

Grow the Company's Private Label Portfolio

The Company has improved its private brands' positioning and branding. The Company will review the specific role of private brands in each category and determine in 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 moving forward with investments 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 over the past three years through Project Sunrise. Further opportunity still remains to remove non-value added costs and optimize margins.

Drive Non-Merchandising Sourcing Efficiencies

The strategic sourcing team, established in Project Sunrise, will continue 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 and 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 in Project Sunrise, 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 Enable Effective Promotions

Pricing tools will help the Company shift pricing investment to products customers care most about with the goal of improving value for customers.

Advanced analytic tools will be leveraged by category merchants nationally across formats to improve the Company's net cost of promotions, while improving value for customers.

Optimize Supply Chain Productivity

The Company will 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 will drive 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 the Company planning to double the store count in five years from the acquisition date, mainly in the Greater Toronto Area ("GTA"). During the quarter, the Company opened three locations: two conversions and one new site. Subsequent to the end of the quarter, the Company announced the conversion of an existing Sobeys store to the Farm Boy banner and a closure of a nearby Farm Boy site. The existing Farm Boy site will close the day prior to the new store opening. Costs related to the store closures and conversion to Farm Boy will be charged to earnings in the third quarter of fiscal 2021 and are estimated to be approximately $1.2 million before tax. Since the acquisition, Farm Boy has added eight new stores to its Ontario network.

The Company now has 42 confirmed locations in Ontario:

- 34 Farm Boy stores currently open and operating as at December 9, 2020
- 8 Farm Boy stores to open in calendar 2021, net of one closure

FreshCo

In fiscal 2018, Sobeys announced plans to expand its discount format to Western Canada and expects to convert up to 25% of its 255 Safeway and Sobeys full-service format stores in Western Canada to its FreshCo discount format. The Company has now confirmed 30 of approximately 65 locations in Western Canada and is on track to open 10 to 15 FreshCo stores in fiscal 2021.

Of the 30 confirmed FreshCo locations:

- 22 stores currently open and operating at December 9, 2020:
    - 16 in British Columbia (“B.C.”)
    - 4 in Saskatchewan
    - 2 in Manitoba
- 6 stores expected to open in fiscal 2021:
    - 4 in Manitoba
    - 2 in Alberta
- 2 stores expected to open in fiscal 2022:
    - 1 in Alberta
    - 1 in Saskatchewan

In the second quarter and year-to-date ended October 31, 2020, the Company expensed $2.8 million and $14.2 million, respectively (2020 – $ nil and $21.0 million) in store closure and conversion costs related to Farm Boy and FreshCo conversions.

Due to revised estimates related to store closures and conversions, $0.4 million was reversed during the quarter (2020 – $9.8 million). As a result, the net expense (recovery) included in selling and administrative expenses in the second quarter of fiscal 2021 was $2.4 million (2020 – ($9.8 million)) and the net year-to-date expense is $13.8 million (2020 – $11.2 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, now 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 cost of the one-time lump sum payment was estimated to be approximately $15.6 million pre-tax and was charged to operating earnings during the first quarter. During the second quarter, $0.8 million was reversed due to revised estimates. The one-time retroactive lump sum payment associated with this CBA was fully paid in the second quarter.

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 safely deliver orders directly to the customer’s home.

The Vaughan CFC has recently extended its service area to include Barrie and Guelph, already servicing the GTA and Hamilton area. Customers currently choose from a selection of approximately 16,500 products and the Company continues to add products daily. The business is operating to expectations, with strong on-time delivery, fulfilment, and customer satisfaction and retention results. Sales are consistently increasing every week since the launch.

Construction of Voilà's second CFC in Montreal was delayed due to a temporary shutdown of non-essential construction in Quebec due to COVID-19. Construction has resumed and the CFC is expected to be ready to deliver to customers in early 2022. This second CFC will support the launch of *Voilà par IGA* which will serve major cities in Quebec and Ottawa, Ontario.

The Company is accelerating its plans for the remaining two Voilà e-commerce CFCs – for a total of four CFCs across Canada. The third CFC will be located in Calgary, Alberta which will service the majority of Alberta. It is expected to deliver to customers in 2023. With only four CFCs, the Company will be able to serve approximately 75% of Canadian households representing approximately 90% of Canadians' spend.

On September 15, 2020, the Company launched Voilà Curbside Pickup service at three store locations in Nova Scotia and plans to expand to hundreds of stores across the country over the next few years. The Company intends to launch the Voilà Curbside Pickup in Alberta in 2021. The store pick solution is powered by Ocado's technology. Responding to the growth in Canada's online grocery market, the Company accelerated its e-commerce strategy to be able to reach even more Canadians sooner. The store pick solution will serve customers in areas where future CFCs will not deliver or are not yet built.

Voilà had a $0.05 and $0.10 dilutive impact after tax on earnings per share in the second quarter and year-to-date, respectively (2020 – $0.01 and $0.02) and is expected to have a dilutive effect of approximately $0.20 after tax for all of fiscal 2021 (2020 – $0.04).

SUMMARY RESULTS – SECOND QUARTER

($ in millions, except per share amounts)	13 Weeks Ended **Oct. 31, 2020**	Nov. 2, 2019	$ Change	% Change	26 Weeks Ended **Oct. 31, 2020**	Nov. 2, 2019	$ Change	% Change
Sales	**$ 6,975.4**	$ 6,436.5	$ 538.9	8.4%	**$ 14,329.6**	$ 13,180.6	$ 1,149.0	8.7%
Gross profit[1]	**1,751.1**	1,595.7	155.4	9.7%	**3,599.7**	3,256.1	343.6	10.6%
Operating income	**306.5**	286.4	20.1	7.0%	**684.1**	552.5	131.6	23.8%
EBITDA[1]	**513.4**	477.7	35.7	7.5%	**1,095.9**	937.7	158.2	16.9%
Finance costs, net	**66.1**	69.9	(3.8)	(5.4)%	**136.8**	141.6	(4.8)	(3.4)%
Income tax expense	**63.6**	56.2	7.4	13.2%	**153.7**	107.8	45.9	42.6%
Non-controlling interest	**15.4**	5.7	9.7	170.2%	**40.3**	17.9	22.4	125.1%
Net earnings[2]	**161.4**	154.6	6.8	4.4%	**353.3**	285.2	68.1	23.9%
Basic earnings per share								
Net earnings[2]	**$ 0.60**	$ 0.57			**$ 1.31**	$ 1.05		
Basic weighted average number of shares outstanding (in millions)	**269.0**	271.3			**269.0**	271.5		
Diluted earnings per share								
Net earnings[2]	**$ 0.60**	$ 0.57			**$ 1.31**	$ 1.05		
Diluted weighted average number of shares outstanding (in millions)	**270.1**	272.4			**269.9**	272.6		
Dividend per share	**$ 0.13**	$ 0.12			**$ 0.26**	$ 0.24		

	13 Weeks Ended **Oct. 31, 2020**	Nov. 2, 2019	26 Weeks Ended **Oct. 31, 2020**	Nov. 2, 2019
Gross margin[1]	**25.1%**	24.8%	**25.1%**	24.7%
EBITDA margin[1]	**7.4%**	7.4%	**7.6%**	7.1%
Same-store sales[1] growth	**7.3%**	1.2%	**7.9%**	1.5%
Same-store sales growth, excluding fuel	**8.7%**	2.0%	**9.8%**	2.2%
Effective income tax rate	**26.5%**	26.0%	**28.1%**	26.2%

Food Retailing

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

($ in millions)	13 Weeks Ended **Oct. 31, 2020**	Nov. 2, 2019	$ Change	% Change	26 Weeks Ended **Oct. 31, 2020**	Nov. 2, 2019	$ Change	% Change
Sales	**$ 6,975.4**	$ 6,436.5	$ 538.9	8.4%	**$ 14,329.6**	$ 13,180.6	$ 1,149.0	8.7%
Gross profit	**1,751.1**	1,595.7	155.4	9.7%	**3,599.7**	3,256.1	343.6	10.6%
Operating income	**299.2**	251.8	47.4	18.8%	**671.1**	506.2	164.9	32.6%
EBITDA	**506.2**	443.2	63.0	14.2%	**1,082.8**	891.3	191.5	21.5%
Net earnings[2]	**162.8**	127.9	34.9	27.3%	**352.1**	250.1	102.0	40.8%

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

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.

Empire Company Limited Consolidated Operating Results

Sales

Sales for the quarter and year-to-date ended October 31, 2020 increased by 8.4% and 8.7%, respectively, primarily driven by the impact of COVID-19 and market share gains in the Food retailing segment and the expansion of FreshCo in Western Canada. These increases were partially offset by lower fuel sales as a result of COVID-19 and temporary store closures in Western Canada pending conversion to FreshCo.

Gross Profit

Gross profit for the quarter and year-to-date ended October 31, 2020 increased by 9.7% and 10.6%, respectively, primarily as a result of increases in sales and sales mix between banners. These increases were partially offset by temporary store closures in Western Canada pending their conversion to FreshCo.

Gross margin for the second quarter increased to 25.1% from 24.8% last year. Year-to-date, gross margin increased to 25.1% from 24.7% last year. These increases were primarily a result of the effect of sales mix changes between banners.

Operating Income

	13 Weeks Ended		$	26 Weeks Ended		$
($ in millions)	**Oct. 31, 2020**	Nov. 2, 2019	Change	**Oct. 31, 2020**	Nov. 2, 2019	Change
Consolidated operating income:						
Food retailing	**$ 299.2**	$ 251.8	$ 47.4	**$ 671.1**	$ 506.2	$ 164.9
Investments and other operations:						
Crombie REIT	**6.9**	24.3	(17.4)	**11.8**	37.5	(25.7)
Genstar	**2.6**	6.1	(3.5)	**5.2**	7.3	(2.1)
Other operations, net of corporate expenses	**(2.2)**	4.2	(6.4)	**(4.0)**	1.5	(5.5)
	7.3	34.6	(27.3)	**13.0**	46.3	(33.3)
Operating income	**$ 306.5**	$ 286.4	$ 20.1	**$ 684.1**	$ 552.5	$ 131.6

For the quarter ended October 31, 2020, 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 and higher margins, partially offset by higher selling and administrative expenses. Selling and administrative expenses increased primarily as a result of higher store, distribution centre and backstage teammate compensation accruals, increased costs for Voilà, COVID-19 related costs, higher labour costs, net expense associated with the closure and conversion of stores as part of the ongoing expansion of the FreshCo discount format into Western Canada and an increase in right-of-use asset depreciation expense. The higher labour costs are to support the higher level of sales volume.

Year-to-date, 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 margins, and a $30.3 million gain on a significant sale of property recorded through 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 store, distribution centre and backstage teammate compensation accruals, spending on sanitization and safety measures, increased costs for Voilà, an increase in right-of-use asset depreciation expense and costs related to the Alberta labour agreement. The increased labour costs substantially relate to the Company’s temporary Hero Pay program and the related one-time bonus costs in the first part of the first quarter for frontline employees in stores and distribution centres. The temporary Hero Pay program increased frontline retail and distribution centre employee compensation to reflect these employees’ efforts during early pandemic lockdown restrictions.

Operating income from the Investments and other operations segment for the quarter and year-to-date decreased primarily as a result of reduced equity earnings from Crombie Real Estate Investment Trust (“Crombie REIT”) as discussed in the “Investments and Other Operations” section.

EBITDA

For the quarter ended October 31, 2020, EBITDA increased to $513.4 million from $477.7 million in the prior year mainly as a result of the same factors affecting operating income. EBITDA margin of 7.4% was consistent with the prior year.

Year-to-date, EBITDA increased to $1,095.9 million from $937.7 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 quarter and year-to-date ended October 31, 2020, 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, lower accretion expense on provisions and an increase in interest income on lease receivables.

Income Taxes

The effective income tax rate for the second quarter ended October 31, 2020 was 26.5% compared to 26.0% last year. The effective rate in the current quarter is in line with the statutory rate. The effective rate in the prior year was lower than the statutory rate due to a decrease in previously unrecognized tax benefits and tax provision adjustments.

Year-to-date, the effective income tax rate was 28.1% compared to 26.2% last year. The effective rate in the current year is higher than the statutory rate primarily due to the revaluation of deferred assets and changes in estimated book and tax differences, partially offset by non-taxable capital items. The prior year's effective tax rate was lower than the statutory rate primarily due to higher non-taxable capital items and a decrease in previously unrecognized tax benefits.

Net Earnings

	13 Weeks Ended		$	26 Weeks Ended		$
($ in millions, except per share amounts)	**Oct. 31, 2020**	Nov. 2, 2019	Change	**Oct. 31, 2020**	Nov. 2, 2019	Change
Net earnings[(1)]	**$ 161.4**	$ 154.6	$ 6.8	**$ 353.3**	$ 285.2	$ 68.1
EPS[(2)] (fully diluted)	**$ 0.60**	$ 0.57		**$ 1.31**	$ 1.05	
Diluted weighted average number of shares outstanding (in millions)	**270.1**	272.4		**269.9**	272.6	

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

<u>Investments and Other Operations</u>

	13 Weeks Ended		$	26 Weeks Ended		$
($ in millions)	**Oct. 31, 2020**	Nov. 2, 2019	Change	**Oct. 31, 2020**	Nov. 2, 2019	Change
Crombie REIT	**$ 6.9**	$ 24.3	$ (17.4)	**$ 11.8**	$ 37.5	$ (25.7)
Genstar	**2.6**	6.1	(3.5)	**5.2**	7.3	(2.1)
Other operations, net of corporate expenses	**(2.2)**	4.2	(6.4)	**(4.0)**	1.5	(5.5)
	$ 7.3	$ 34.6	$ (27.3)	**$ 13.0**	$ 46.3	$ (33.3)

For the quarter ended October 31, 2020, 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, and lower operating property income in the current year. The $6.9 million deferred gain recognition was included in other operations, net of corporate expenses.

Year-to-date, income from Investments and other operations decreased principally due to the reasons described above, 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.

QUARTERLY RESULTS OF OPERATIONS

($ in millions, except per share amounts)	Fiscal 2021 Q2 (13 Weeks) Oct. 31, 2020	Fiscal 2020 Q1 (13 Weeks) Aug. 1, 2020	Fiscal 2020 Q4 (13 Weeks) May 2, 2020	Fiscal 2020 Q3 (13 Weeks) Feb. 1, 2020	Fiscal 2020 Q2 (13 Weeks) Nov. 2, 2019	Fiscal 2020 Q1 (13 Weeks) Aug. 3, 2019	Fiscal 2019 Q4 (13 Weeks) May 4, 2019	Fiscal 2019 Q3 (13 Weeks) Feb. 2, 2019
Sales	**$ 6,975.4**	$ 7,354.2	$ 7,012.4	$ 6,395.2	$ 6,436.5	$ 6,744.1	$ 6,220.4	$ 6,247.3
Operating income	**306.5**	377.6	324.3	235.0	286.4	266.1	194.2	110.0
EBITDA(1)	**513.4**	582.5	527.8	426.9	477.7	460.0	300.1	214.6
Net earnings(2)	**161.4**	191.9	177.8	120.5	154.6	130.6	122.1	65.8
Per share information, basic								
Net earnings(2)	**$ 0.60**	$ 0.71	$ 0.66	$ 0.45	$ 0.57	$ 0.48	$ 0.45	$ 0.24
Basic weighted average number of shares outstanding (in millions)	**269.0**	269.0	269.0	269.7	271.3	271.8	271.9	271.9
Per share information, diluted								
Net earnings(2)	**$ 0.60**	$ 0.71	$ 0.66	$ 0.45	$ 0.57	$ 0.48	$ 0.45	$ 0.24
Diluted weighted average number of shares outstanding (in millions)	**270.1**	269.8	269.7	270.6	272.4	272.9	272.8	272.5

(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 consistently improved compared to the same period in the prior year, with the exception of the third quarter of fiscal 2019 due to the expense associated with the voluntary buyouts of B.C. Safeway employees. Beginning on December 10, 2018, in the third quarter of fiscal 2019, the Company's results include the results of Farm Boy. Additionally, the Company experienced a significant increase in sales, gross margin, and selling and administrative expenses largely due to impacts from COVID-19 in the fourth quarter of fiscal 2020 and the first two 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 other investing 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 2020 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.

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Oct. 31, 2020**	Nov. 2, 2019	**Oct. 31, 2020**	Nov. 2, 2019
Cash flows from operating activities	**$ 318.8**	$ 316.0	**$ 718.2**	$ 721.3
Cash flows used in investing activities	**(143.1)**	(136.0)	**(247.1)**	(160.8)
Cash flows used in financing activities	**(496.7)**	(470.4)	**(723.9)**	(709.5)
Decrease in cash and cash equivalents	**$ (321.0)**	$ (290.4)	**$ (252.8)**	$ (149.0)

Operating Activities

Cash flows from operating activities for the second quarter ended October 31, 2020 increased as a result of higher cash earnings and a change in non-cash working capital offset by income taxes paid during the quarter.

Year-to-date, cash flows from operating activities decreased as a result of a decrease in working capital, primarily a reversal of favourable working capital impacts in the fourth quarter of fiscal 2020 when COVID-19 driven activity increased accounts payable. Income taxes paid was also a contributing factor to the decrease offset by higher cash earnings.

Investing Activities

The table below outlines details of investing activities of the Company for the quarter and year-to-date ended October 31, 2020 compared to the quarter and year-to-date ended November 2, 2019:

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Oct. 31, 2020**	Nov. 2, 2019	**Oct. 31, 2020**	Nov. 2, 2019
Acquisitions of property, equipment, investment property and intangibles	**$ (159.4)**	$ (196.0)	**$ (304.8)**	$ (287.4)
Proceeds on disposal of assets[(1)] and lease terminations	**16.5**	40.6	**40.0**	80.8
Leases and other receivables, net	**(10.0)**	2.3	**(12.7)**	5.2
Other assets and other long-term liabilities	**(0.3)**	(2.3)	**1.8**	3.6
Business acquisitions	**(5.1)**	(1.2)	**(8.2)**	(4.2)
Payments received for finance subleases	**13.4**	18.7	**33.0**	37.3
Interest received	**1.8**	1.9	**3.8**	3.9
Cash flows used in investing activities	**$ (143.1)**	$ (136.0)	**$ (247.1)**	$ (160.8)

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

Cash used in investing activities for the second quarter increased primarily as a result of a decrease in proceeds on disposal of assets offset by a decrease in capital investments.

Year-to-date, cash used in investing activities increased as a result of higher capital investments and a decrease in proceeds on disposal of assets.

Capital Expenditures

The Company invested $120.7 million and $240.5 million in capital expenditures[1] for the quarter and year-to-date ended October 31, 2020, respectively (2020 – $150.4 million and $241.8 million) including renovations, construction of new stores, construction of an e-commerce fulfilment centre and construction of FreshCo locations in Western Canada.

In fiscal 2021, capital spending is expected to be between $650 million and $675 million with approximately half of this investment allocated to renovations and new stores. The Company expects to open 10 to 15 FreshCo stores in Western Canada and expand the Farm Boy footprint by eight stores in Ontario. The Company intends 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 2021, including its share of the investment in the Montreal CFC, is expected to be approximately $65 million.

(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 second quarter and year-to-date ended October 31, 2020 compared to the prior year.

	13 Weeks Ended		26 Weeks Ended	
# of stores	**October 31, 2020**	November 2, 2019	**October 31, 2020**	November 2, 2019
Opened/relocated/acquired[2]	**3**	2	**13**	8
Expanded	**-**	-	**-**	-
Rebannered/redeveloped	**1**	-	**3**	1
Closed[2]	**9**	7	**12**	13
Opened - FreshCo[3]	**2**	-	**9**	4
Closed - pending conversion to FreshCo[3]	**1**	3	**1**	8
Opened - Farm Boy	**3**	-	**3**	-
Closed - pending conversion to Farm Boy	**3**	2	**3**	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 October 31, 2020:

Square feet (in thousands)	**13 Weeks Ended October 31, 2020**	**52 Weeks Ended October 31, 2020**
Opened	**39**	**423**
Rebannered/redeveloped	**10**	**22**
Expanded	**-**	**17**
Closed	**(154)**	**(307)**
Net change before the impact of the acquisition of Farm Boy & expansion of FreshCo	**(105)**	**155**
Opened - FreshCo[4]	**72**	**334**
Closed - pending conversion to FreshCo[4]	**(28)**	**(288)**
Opened - Farm Boy	**77**	**153**
Closed - pending conversion to Farm Boy	**(85)**	**(97)**
Net change	**(69)**	**257**

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

At October 31, 2020, Sobeys' square footage totalled 40.1 million, a 0.8% increase compared to 39.8 million square feet at November 2, 2019.

Financing Activities

Cash used in financing activities for the quarter and year-to-date ended October 31, 2020 increased due to repayment of credit facilities offset by the timing of rent payments due to the reporting quarter end date and the prior year purchase of Non-Voting Class A shares.

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.

	13 Weeks Ended		$	26 Weeks Ended		$
($ in millions)	**Oct. 31, 2020**	Nov. 2, 2019	Change	**Oct. 31, 2020**	Nov. 2, 2019	Change
Cash flows from operating activities	**$ 318.8**	$ 316.0	$ 2.8	**$ 718.2**	$ 721.3	$ (3.1)
Add: proceeds on disposal of assets[1] and lease terminations	**16.5**	40.6	(24.1)	**40.0**	80.8	(40.8)
Less: payments of lease liabilities, net of payments received for finance subleases	**(100.7)**	(131.9)	31.2	**(233.1)**	(261.8)	28.7
Less: acquisitions of property, equipment, investment property and intangibles	**(159.4)**	(196.0)	36.6	**(304.8)**	(287.4)	(17.4)
Free cash flow[2]	**$ 75.2**	$ 28.7	$ 46.5	**$ 220.3**	$ 252.9	$ (32.6)

(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 increased for the quarter ended October 31, 2020 primarily as a result of a decrease in capital investments and the timing of rent payments due to the reporting quarter end date, partially offset by a decrease in proceeds on disposal of assets.

Year-to-date, free cash flow decreased primarily as a result of a decrease in proceeds on disposal of assets and an increase in capital investments, partially offset by the timing of rent payments due to the reporting quarter end date.

Employee Future Benefit Obligations

For the quarter and year-to-date ended October 31, 2020, the Company contributed $3.5 million and $7.2 million, respectively (2020 – $2.9 million and $7.9 million) to its registered defined benefit plans. The Company expects to contribute approximately $17.4 million to these plans in fiscal 2021.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		Oct. 31, 2020		May 2, 2020		Nov. 2, 2019[1]
Shareholders' equity, net of non-controlling interest	**$**	**4,196.5**	$	3,924.6	$	3,726.2
Book value per common share[2]	**$**	**15.60**	$	14.51	$	13.73
Long-term debt, including current portion	**$**	**1,341.3**	$	1,675.2	$	1,752.1
Long-term lease liabilities, including current portion	**$**	**5,431.1**	$	5,266.2	$	4,993.4
Net funded debt to net total capital[2]		**58.9%**		60.2%		63.0%
Funded debt to EBITDA[2][3]		**3.3x**		3.7x		4.6x
EBITDA to interest expense[2][4]		**7.4x**		6.8x		7.8x
Trailing four-quarter EBITDA	**$**	**2,050.6**	$	1,892.4	$	1,452.4
Trailing four-quarter interest expense	**$**	**276.4**	$	279.3	$	185.7
Current assets to current liabilities		**0.9x**		0.8x		0.9x
Total assets	**$**	**14,567.0**	$	14,632.9	$	13,777.7
Total non-current financial liabilities	**$**	**6,705.4**	$	6,559.0	$	6,981.9

(1) Trailing four-quarter EBITDA and interest expense are impacted by the adoption of IFRS 16, "Leases" in the first quarter of fiscal 2020.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(3) Calculation uses trailing four-quarter EBITDA.
(4) Calculation uses trailing four-quarter EBITDA and interest expense.

During the quarter, 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. Sobeys has an investment grade credit rating from both its rating agencies. The following table shows Sobeys' credit ratings as at December 9, 2020:

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 October 31, 2020, the outstanding amount of the credit facility was $55.1 million (2020 – $18.8 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 October 31, 2020, the outstanding amount of the facility was $ nil (2020 – $ nil) and Sobeys has issued $88.6 million in letters of credit against the facility (2020 – $76.3 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. Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates. During the 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. Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates. The facility was fully utilized on December 10, 2018, with the proceeds used to fund part of the Farm Boy acquisition. As of October 31, 2020, $200.0 million had been repaid on this facility. Subsequent to the end of the quarter, on November 6, 2020, the Company fully repaid the remaining $200.0 million on this facility.

The Company believes its cash and cash equivalents on hand, approximately $756 million in unutilized, aggregate credit facilities as of October 31, 2020, 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 October 31, 2020:

	Number of Shares	
Authorized	**October 31, 2020**	November 2, 2019
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	**765,052,766**	766,628,095
Class B common shares, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding ($ in millions)	**Number of Shares**	**October 31, 2020**	November 2, 2019
Non-Voting Class A shares	**171,098,794**	**$ 2,010.2**	$ 2,023.3
Class B common shares	**98,138,079**	**7.3**	7.3
Shares held in trust	**(52,046)**	**(1.0)**	(3.2)
Total		**$ 2,016.5**	$ 2,027.4

The Company's share capital on October 31, 2020 compared to the same period in the last fiscal year is shown in the table below:

	13 Weeks Ended	
(Number of Shares)	**October 31, 2020**	November 2, 2019
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**171,044,606**	173,271,882
Issued during period	**109,688**	118,230
Purchased for cancellation	**(55,500)**	(930,454)
Issued and outstanding, end of period	**171,098,794**	172,459,658
Shares held in trust, beginning of period	**(74,264)**	(211,568)
Issued for future settlement of equity settled plans	**22,425**	48,680
Purchased for future settlement of equity settled plans	**(207)**	-
Shares held in trust, end of period	**(52,046)**	(162,888)
Issued and outstanding, net of shares held in trust, end of period	**171,046,748**	172,296,770
Class B common shares		
Issued and outstanding, beginning and end of period	**98,138,079**	98,138,079

During the second quarter and year-to-date ended October 31, 2020, the Company paid common dividends of $35.0 million and $70.0 million (November 2, 2019 – $32.5 million and $65.1 million) to its common shareholders. This represents a payment of $0.13 and $0.26 per share (November 2, 2019 – $0.12 and $0.24 per share) for common shareholders.

As at December 8, 2020, the Company had Non-Voting Class A and Class B common shares outstanding of 170,403,477 and 98,138,079, respectively. Options to acquire 5,058,802 Non-Voting Class A shares were outstanding as of October 31, 2020 (November 2, 2019 – 4,829,354). As at December 8, 2020, options to acquire 5,058,802 Non-Voting Class A shares were outstanding (December 10, 2019 – 4,829,354).

Normal Course Issuer Bid ("NCIB")

On June 27, 2019, the Company filed a notice of intent with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 3.5 million Non-Voting Class A shares ("Class A shares") representing approximately 2.0% of shares outstanding. As of May 2, 2020, the Company purchased for cancellation 2,997,583 Class A shares at an average price of $33.36 for a total consideration of $100.0 million.

On June 18, 2020, the Company renewed its NCIB by filing a notice of intention with the TSX to purchase for cancellation up to 5.0 million Class A shares representing approximately 3.0% of the 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.

The Company's NCIB activity for the second quarter and year-to-date ended October 31, 2020 is shown in the table below:

	13 Weeks Ended		26 Weeks Ended	
($ in millions, except per share amounts)	**Oct. 31, 2020**	Nov. 2, 2019	**Oct. 31, 2020**	Nov. 2, 2019
Number of shares	**55,500**	930,454	**55,500**	1,477,754
Weighted average price per share	**$ 37.47**	$ 35.49	**$ 37.47**	$ 35.17
Cash consideration paid	**$ 2.1**	$ 33.1	**$ 2.1**	$ 52.0

Including purchases made subsequent to the end of the quarter, as at December 8, 2020, the Company has purchased 810,817 (December 10, 2019 – 1,769,184) Class A shares at an average price of $36.29 (December 10, 2019 – $35.03) for a total consideration of $29.4 million (December 10, 2019 – $62.0 million).

ACCOUNTING STANDARDS AND POLICIES

The unaudited interim condensed consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 2, 2020.

Future Standards

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.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2020 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 August 2, 2020 and ended October 31, 2020 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 including ongoing leases and property management agreements. There have been no material changes to the specified contractual obligations between the Company and Crombie REIT during the quarter other than as described below. The Company holds a 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 quarter 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. There was no gain or loss as a result of this sale.

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 October 31, 2020, Sobeys has accrued a total of $4.3 million in current and long-term receivables related to these amounts.

During the quarter ended August 3, 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.

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 2020 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:

	13 Weeks Ended		26 Weeks Ended	
($ in millions)	**Oct. 31, 2020**	Nov. 2, 2019	**Oct. 31, 2020**	Nov. 2, 2019
Net earnings	**$ 176.8**	$ 160.3	**$ 393.6**	$ 303.1
Income tax expense	**63.6**	56.2	**153.7**	107.8
Finance costs, net	**66.1**	69.9	**136.8**	141.6
Operating income	**306.5**	286.4	**684.1**	552.5
Depreciation	**187.7**	173.1	**373.5**	347.8
Amortization of intangibles	**19.2**	18.2	**38.3**	37.4
EBITDA	**$ 513.4**	$ 477.7	**$ 1,095.9**	$ 937.7

- 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		26 Weeks Ended	
($ in millions)	**Oct. 31, 2020**	Nov. 2, 2019	**Oct. 31, 2020**	Nov. 2, 2019
Finance costs, net	**$ 66.1**	$ 69.9	**$ 136.8**	$ 141.6
Plus: finance income, excluding interest income on lease receivables	**3.1**	2.7	**6.2**	5.8
Less: pension finance costs, net	**(2.1)**	(2.2)	**(4.1)**	(4.4)
Less: accretion expense on provisions	**(0.3)**	(1.4)	**(1.2)**	(2.4)
Interest expense	**$ 66.8**	$ 69.0	**$ 137.7**	$ 140.6

- 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 October 31, 2020, May 2, 2020 and November 2, 2019, respectively:

($ in millions)	**October 31, 2020**	May 2, 2020	November 2, 2019
Long-term debt due within one year	**$ 245.4**	$ 570.0	$ 27.1
Long-term debt	**1,095.9**	1,105.2	1,725.0
Lease liabilities due within one year	**468.9**	466.2	421.6
Long-term lease liabilities	**4,962.2**	4,800.0	4,571.8
Funded debt	**6,772.4**	6,941.4	6,745.5
Less: cash and cash equivalents	**(755.6)**	(1,008.4)	(404.3)
Net funded debt	**6,016.8**	5,933.0	6,341.2
Total shareholders' equity, net of non-controlling interest	**4,196.5**	3,924.6	3,726.2
Net total capital	**$ 10,213.3**	$ 9,857.6	$ 10,067.4

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 October 31, 2020, May 2, 2020 and November 2, 2019:

($ in millions, except per share information)		**October 31, 2020**		May 2, 2020		November 2, 2019
Shareholders' equity, net of non-controlling interest	**$**	**4,196.5**	$	3,924.6	$	3,726.2
Shares outstanding (basic)		**269.0**		270.4		271.3
Book value per common share	**$**	**15.60**	$	14.51	$	13.73

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

Approved by Board of Directors: December 9, 2020
Stellarton, Nova Scotia, Canada