EMPIRE
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THIRD QUARTER AND YEAR-TO-DATE ENDED JANUARY 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") (TSX: EMP.A) and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the third quarter and year-to-date ended January 30, 2021 compared to the third quarter and year-to-date ended February 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 third quarter and year-to-date ended January 30, 2021 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 March 9, 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 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 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 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 $0.18 per share in fiscal 2021, which may be impacted by COVID-19, future operating and capital costs, 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 shutdowns due to COVID-19, the ability for restaurants and hospitality businesses to re-open and resume operations, and the ongoing demand for restaurants and hospitality services in the near term;

- The Company's same-store sales disclosure for the first five weeks of the fourth 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 $4 million in fourth quarter fiscal 2021 costs related to its temporary Lockdown Bonus for frontline employees in impacted regions, and additional spending required to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19 and safety precautions required;

- The Company's expectation that it will incur increased selling and administrative expenses in the fourth quarter of fiscal 2021 related to compensation accruals, right-of-use asset depreciation and marketing spend timing;

- 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, 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, and additions to intangibles, which may be impacted by operating results, impacts of the pandemic and the economic environment;

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

- The Company's plans to purchase for cancellation Non-Voting Class A shares under, and to renew, its normal course issuer bid which may be impacted by market and economic conditions, changes in laws and regulations, and the results of operations; and

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

By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of 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, namely: (i) Food retailing and (ii) Investments and other operations. With approximately $28.4 billion in annual sales and $15.0 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, wearing masks and receiving vaccinations. This has led to increased safety protocols in stores and distribution centres, shifts in consumer demand and consumption, and volatile financial markets. The Company has taken a proactive approach throughout, mobilizing a cross-functional pandemic planning task force with a mandate to monitor and effectively mitigate risks posed to employees, customers and the business. Management's top priorities remain the health and safety of employees, customers and communities while maintaining a resilient supply chain to meet the needs of Canadians and supporting charitable organizations. The Company continues to invest in increased safety and sanitization products and procedures to ensure customers and employees are protected while shopping and working in stores. Management is closely monitoring the impact of the pandemic on food retail around the world and continues to learn from best practices.

Management anticipates that a percentage of the consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores. The future impact of COVID-19 and government restrictions is uncertain and dependent on the duration and spread of the virus, its variants, and ultimately, the successful rollout of vaccinations across the country. The Company's balance sheet and cash flow remain strong. As of January 30, 2021, the Company had $784 million in cash and cash equivalents, and had access to approximately $742 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 businesses experienced sales growth of 315% in the third quarter compared to the prior year.

As Canada and the world continue to adapt and progress in these unprecedented times, it is too early to forecast sales in the medium term. The Company has begun to lap the period when significant stock up activity was experienced in stores. In the fourth quarter last year, the Company recorded 18% same-store sales growth, with weekly same-store sales ranging between (1%) and 52%. Consumer buying behaviours have evolved throughout COVID-19. As such, sales in the fourth quarter compared to last year will be less meaningful as they will not provide a full indication of underlying performance. Over the first five weeks of the fourth quarter, the Company's same-store sales growth, excluding fuel, was 9% compared to last year, an increase that is unlikely to be sustained through the fourth quarter as a result of the significant COVID-19 driven sales last year.

During the third quarter, certain provincial governments implemented new lockdown restrictions. The Company introduced a temporary Lockdown Bonus for frontline employees in stores and distribution centres in impacted regions. The Lockdown Bonus could also be introduced in additional geographies if 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.

During the third quarter, the cost of the Lockdown Bonus and maintaining sanitization and safety measures increased selling and administrative expenses by approximately $19 million, including $9 million for the Lockdown Bonus. The Company's original estimate of up to $5 million for the Lockdown Bonus only included Manitoba and certain regions of Ontario. With the rest of Ontario and Quebec also going into lockdown, the actual cost exceeded the estimate. Currently, the cost of the Lockdown Bonus for the fourth quarter is estimated to be up to $4 million. In the fourth quarter, it is expected that the Company will incur approximately $15 million to $20 million (2020 – $80 million) in selling and administrative expenses related to the increased cost of maintaining sanitization and safety measures, the Lockdown Bonus and other COVID-19 related costs.

In the fourth quarter of fiscal 2021, the Company also expects to incur increased marketing costs related to the timing of ongoing initiatives, including its sponsorship of the Canadian Olympic team. With the delay of the Summer Olympics in 2020 due to COVID-19, both the Summer and Winter games will occur in fiscal 2022, which has shifted some of the related marketing spend to the fourth quarter of fiscal 2021.

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 renovations and conversions, 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 the new capabilities, 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. In December, the Company announced that its third CFC will be located in Calgary and will service the majority of Alberta. The Company has also introduced Ocado's store pick solution which 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 select Sobeys store locations and will expand Voilà Curbside Pickup to stores nationally 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 reviews the specific role of private brands in each category and determines which categories and banners to expand based on consumer needs. Working closely with its supplier partners, the Company plans to further grow sales and profitability of its private label brands through increased distribution, shelf placement and product innovation.

Provide Best in Class Customer Personalization

The Company is 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 nationally by category merchants across all 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 plans 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, net of one closure. The Company is on track to open a total of eight new stores in fiscal 2021, bringing the total store count to 38, including one relocation.

Approximately two years since the acquisition, the Company now has 42 confirmed Farm Boy locations in Ontario:

- 36 Farm Boy stores currently open and operating as at March 9, 2021
- 6 Farm Boy stores to open in the remainder of 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 37 of 65 locations in Western Canada – over half of the original target – and is on track to open 10 to 15 FreshCo stores in fiscal 2021 as planned.

Of the 37 confirmed FreshCo locations:

- 23 stores currently open and operating at March 9, 2021:
  - 16 in British Columbia
  - 4 in Saskatchewan
  - 3 in Manitoba
- 5 stores expected to open in the remainder of fiscal 2021:
  - 3 in Manitoba
  - 2 in Alberta
- 9 stores expected to open in fiscal 2022:
  - 7 in Alberta
  - 1 in Saskatchewan
  - 1 in Northern Ontario

Store Closure and Conversion Costs

In the third quarter and year-to-date ended January 30, 2021, the Company expensed $16.4 million and $30.6 million, respectively (2020 – $ nil and $11.2 million) in store closure and conversion costs primarily related to Farm Boy and FreshCo conversions.

Ratification of New Collective Bargaining Agreement in Alberta

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

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

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 has recently extended its service area to include Barrie, Kitchener, Waterloo and Guelph, already servicing the GTA and Hamilton area. The business is operating to expectations, with strong on-time delivery, fulfilment, and customer satisfaction and retention results. Order volumes have consistently increased week-over-week since the launch.

Crombie Real Estate Investment Trust ("Crombie REIT") has completed the construction of the building for Voilà's second CFC in Montreal and turned it over to Ocado to build the internal grid. 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 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.

On September 15, 2020, the Company launched Voilà Curbside Pickup service, now serving customers in select stores in Nova Scotia and Alberta. The Company plans to expand to hundreds of stores across the country over the next few years. The store pick solution is powered by Ocado's technology and will serve customers in areas where future CFCs will not deliver or are not yet built.

Voilà had a $0.04 and $0.14 dilutive impact after tax on earnings per share in the third quarter and year-to-date, respectively (2020 – $0.01 and $0.03) and is expected to have a dilutive effect of approximately $0.18 after tax for all of fiscal 2021 (2020 – $0.04) including the costs of the accelerated store pick solution that were not fully included in prior estimates.

SUMMARY RESULTS – THIRD QUARTER

($ in millions, except per share amounts)	13 Weeks Ended Jan. 30, 2021	Feb. 1, 2020	$ Change	% Change	39 Weeks Ended Jan. 30, 2021	Feb. 1, 2020	$ Change	% Change
Sales	**$ 7,018.7**	$ 6,395.2	$ 623.5	9.7%	**$ 21,348.3**	$ 19,575.8	$ 1,772.5	9.1%
Gross profit[1]	**1,803.9**	1,557.7	246.2	15.8%	**5,403.6**	4,813.8	589.8	12.3%
Operating income	**320.4**	235.0	85.4	36.3%	**1,004.5**	787.5	217.0	27.6%
EBITDA[1]	**533.5**	426.9	106.6	25.0%	**1,629.4**	1,364.6	264.8	19.4%
Finance costs, net	**65.9**	68.5	(2.6)	(3.8)%	**202.7**	210.1	(7.4)	(3.5)%
Income tax expense	**67.2**	45.6	21.6	47.4%	**220.9**	153.4	67.5	44.0%
Non-controlling interest	**11.0**	0.4	10.6	2,650.0%	**51.3**	18.3	33.0	180.3%
Net earnings[2]	**176.3**	120.5	55.8	46.3%	**529.6**	405.7	123.9	30.5%
Basic earnings per share								
Net earnings[2]	**$ 0.66**	$ 0.45			**$ 1.97**	$ 1.50		
Basic weighted average number of shares outstanding (in millions)	**268.1**	269.7			**268.7**	270.9		
Diluted earnings per share								
Net earnings[2]	**$ 0.66**	$ 0.45			**$ 1.96**	$ 1.49		
Diluted weighted average number of shares outstanding (in millions)	**269.1**	270.6			**269.7**	272.0		
Dividend per share	**$ 0.13**	$ 0.12			**$ 0.39**	$ 0.36		

	13 Weeks Ended Jan. 30, 2021	Feb. 1, 2020	39 Weeks Ended Jan. 30, 2021	Feb. 1, 2020
Gross margin[1]	**25.7%**	24.4%	**25.3%**	24.6%
EBITDA margin[1]	**7.6%**	6.7%	**7.6%**	7.0%
Same-store sales[1] growth	**8.9%**	1.0%	**8.2%**	1.2%
Same-store sales growth, excluding fuel	**10.7%**	0.8%	**10.1%**	1.7%
Effective income tax rate	**26.4%**	27.4%	**27.6%**	26.6%

Food Retailing

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

($ in millions)	13 Weeks Ended Jan. 30, 2021	Feb. 1, 2020	$ Change	% Change	39 Weeks Ended Jan. 30, 2021	Feb. 1, 2020	$ Change	% Change
Sales	**$ 7,018.7**	$ 6,395.2	$ 623.5	9.7%	**$ 21,348.3**	$ 19,575.8	$ 1,772.5	9.1%
Gross profit	**1,803.9**	1,557.7	246.2	15.8%	**5,403.6**	4,813.8	589.8	12.3%
Operating income	**300.4**	217.3	83.1	38.2%	**971.5**	723.5	248.0	34.3%
EBITDA	**512.8**	409.1	103.7	25.3%	**1,595.6**	1,300.4	295.2	22.7%
Net earnings[2]	**163.5**	108.3	55.2	51.0%	**515.6**	358.4	157.2	43.9%

(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 January 30, 2021 increased by 9.7% and 9.1%, respectively, primarily driven by the impact of COVID-19, market share gains in the Food retailing segment, and the expansion of FreshCo in Western Canada and Farm Boy in Ontario. 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 January 30, 2021 increased by 15.8% and 12.3%, respectively, primarily as a result of increases in sales.

Gross margin for the quarter increased to 25.7% from 24.4% last year primarily resulting from the use of promotional optimization tools and the effect of sales mix changes between banners.

Year-to-date, gross margin increased to 25.3% from 24.6% last year primarily as a result of sales mix changes between banners and the use of promotional optimization tools.

Operating Income

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2021**	Feb. 1, 2020	Change	**Jan. 30, 2021**	Feb. 1, 2020	Change
Consolidated operating income:						
Food retailing	**$ 300.4**	$ 217.3	$ 83.1	**$ 971.5**	$ 723.5	$ 248.0
Investments and other operations:						
Crombie REIT	**9.1**	6.9	2.2	**20.9**	44.4	(23.5)
Genstar	**11.7**	10.5	1.2	**16.9**	17.8	(0.9)
Other operations, net of corporate expenses	**(0.8)**	0.3	(1.1)	**(4.8)**	1.8	(6.6)
	20.0	17.7	2.3	**33.0**	64.0	(31.0)
Operating income	**$ 320.4**	$ 235.0	$ 85.4	**$ 1,004.5**	$ 787.5	$ 217.0

For the quarter ended January 30, 2021, operating income increased mainly due to improved earnings from the Food retailing segment as a result of higher sales driven by the impact of COVID-19 and higher gross profit, partially offset by higher selling and administrative expenses. Selling and administrative expenses increased primarily as a result of higher labour costs including the Lockdown Bonus, higher store, distribution centre and backstage teammate compensation accruals, increased costs for Voilà, an increase in right-of-use asset depreciation expense, expenses associated with the closure and conversion of stores as part of the ongoing expansion of the FreshCo discount format into Western Canada, and other COVID-19 related costs.

It is expected that selling and administrative costs will be higher in the fourth quarter of fiscal 2021 as compared to last year due to compensation accruals, right-of-use asset depreciation, marketing spend timing and Voilà operating costs, which will be partially offset by lower COVID-19 costs.

Operating income from the Investments and other operations segment for the quarter increased primarily as a result of improved equity earnings from Crombie REIT, as discussed in the "Investments and Other Operations" section.

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 gross profit and a $30.3 million gain on a significant sale of property recorded in other income in the first quarter, partially offset by higher selling and administrative expenses. Selling and administrative expenses increased primarily as a result of higher labour costs, higher store, distribution centre and backstage teammate compensation accruals, increased costs for Voilà, spending on sanitization and safety measures, and an increase in right-of-use asset depreciation expense. The increased labour costs substantially relate to the Company's temporary Hero Pay program and the related one-time bonus costs in the first quarter for frontline employees in stores and distribution centres, and the temporary Lockdown Bonus introduced in the third quarter. The temporary Hero Pay program increased frontline retail and distribution centre employee compensation to reflect these employees' efforts during early pandemic lockdown restrictions.

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

EBITDA

For the quarter ended January 30, 2021, EBITDA increased to $533.5 million from $426.9 million in the prior year mainly as a result of the same factors affecting operating income. EBITDA margin increased to 7.6% from 6.7%.

Year-to-date, EBITDA increased to $1,629.4 million from $1,364.6 million in the prior year mainly as a result of the same factors affecting operating income. EBITDA margin increased to 7.6% from 7.0%.

Finance Costs

For the quarter and year-to-date ended January 30, 2021, net finance costs decreased primarily as a result of a decrease in interest expense on financial liabilities measured at amortized cost due to lower interest rates and debt, partially offset by an increase in interest expense on lease liabilities.

Income Taxes

The effective income tax rate for the third quarter ended January 30, 2021 was 26.4% compared to 27.4% last year. The effective rates in the current and last quarter are in line with the statutory rates.

Year-to-date, the effective income tax rate was 27.6% compared to 26.6% last year. The effective rate in the current year is higher than the statutory rate primarily due to revaluation of deferred tax 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 capital gains on property dispositions, and changes in estimated book and tax differences.

Net Earnings

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions, except per share amounts)	**Jan. 30, 2021**	Feb. 1, 2020	Change	**Jan. 30, 2021**	Feb. 1, 2020	Change
Net earnings[1]	**$ 176.3**	$ 120.5	$ 55.8	**$ 529.6**	$ 405.7	$ 123.9
EPS[2] (fully diluted)	**$ 0.66**	$ 0.45		**$ 1.96**	$ 1.49	
Diluted weighted average number of shares outstanding (in millions)	**269.1**	270.6		**269.7**	272.0	

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

<u>Investments and Other Operations</u>

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2021**	Feb. 1, 2020	Change	**Jan. 30, 2021**	Feb. 1, 2020	Change
Crombie REIT	**$ 9.1**	$ 6.9	$ 2.2	**$ 20.9**	$ 44.4	$ (23.5)
Genstar	**11.7**	10.5	1.2	**16.9**	17.8	(0.9)
Other operations, net of corporate expenses	**(0.8)**	0.3	(1.1)	**(4.8)**	1.8	(6.6)
	$ 20.0	$ 17.7	$ 2.3	**$ 33.0**	$ 64.0	$ (31.0)

For the quarter ended January 30, 2021, income from Investments and other operations increased principally due to improved operational equity earnings from Crombie REIT and a gain on the sale of property.

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

QUARTERLY RESULTS OF OPERATIONS

($ in millions, except per share amounts)	**Fiscal 2021** Q3 (13 Weeks) Jan. 30, 2021	Fiscal 2021 Q2 (13 Weeks) Oct. 31, 2020	Fiscal 2021 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
Sales	**$ 7,018.7**	$ 6,975.4	$ 7,354.2	$ 7,012.4	$ 6,395.2	$ 6,436.5	$ 6,744.1	$ 6,220.4
Operating income	**320.4**	306.5	377.6	324.3	235.0	286.4	266.1	194.2
EBITDA(1)	**533.5**	513.4	582.5	527.8	426.9	477.7	460.0	300.1
Net earnings(2)	**176.3**	161.4	191.9	177.8	120.5	154.6	130.6	122.1
Per share information, basic								
Net earnings(2)	**$ 0.66**	$ 0.60	$ 0.71	$ 0.66	$ 0.45	$ 0.57	$ 0.48	$ 0.45
Basic weighted average number of shares outstanding (in millions)	**268.1**	269.0	269.0	269.0	269.7	271.3	271.8	271.9
Per share information, diluted								
Net earnings(2)	**$ 0.66**	$ 0.60	$ 0.71	$ 0.66	$ 0.45	$ 0.57	$ 0.48	$ 0.45
Diluted weighted average number of shares outstanding (in millions)	**269.1**	270.1	269.8	269.7	270.6	272.4	272.9	272.8

(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. Additionally, the Company experienced a significant increase in sales, gross profit, and selling and administrative expenses largely due to impacts from COVID-19 in the fourth quarter of fiscal 2020 and the first three quarters of fiscal 2021.

Sales are affected by fluctuations in inflation. Results are affected by seasonality, in particular during the summer months and over the holidays when retail sales trend higher and can result in stronger operating results. Sales, operating income, EBITDA and net earnings have been influenced by the Company's strategic investment activities, the competitive environment, cost management initiatives, food price and general industry trends as well as other risk factors as outlined in the "Risk Management" section 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		39 Weeks Ended	
($ in millions)	**Jan. 30, 2021**	Feb. 1, 2020	**Jan. 30, 2021**	Feb. 1, 2020
Cash flows from operating activities	**$ 579.1**	$ 480.5	**$ 1,297.3**	$ 1,201.8
Cash flows used in investing activities	**(102.4)**	(29.1)	**(349.5)**	(189.9)
Cash flows used in financing activities	**(448.0)**	(318.5)	**(1,171.9)**	(1,028.0)
Increase (decrease) in cash and cash equivalents	**$ 28.7**	$ 132.9	**$ (224.1)**	$ (16.1)

Operating Activities

Cash flows from operating activities for the quarter ended January 30, 2021 increased as a result of higher cash earnings partially offset by increased income taxes paid during the quarter.

Year-to-date, cash flows from operating activities increased as a result of higher cash earnings, offset by a decrease in working capital and an increase in income taxes paid. The decrease in working capital is primarily a 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 and year-to-date ended January 30, 2021 compared to the quarter and year-to-date ended February 1, 2020:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**Jan. 30, 2021**	Feb. 1, 2020	**Jan. 30, 2021**	Feb. 1, 2020
Acquisitions of property, equipment, investment property and intangibles	**$ (143.7)**	$ (149.1)	**$ (448.5)**	$ (436.5)
Proceeds on disposal of assets[(1)] and lease terminations	**24.0**	85.5	**64.0**	166.3
Leases and other receivables, net	**1.3**	(2.7)	**(11.4)**	2.5
Other assets and other long-term liabilities	**(2.2)**	18.1	**(0.4)**	21.7
Business acquisitions	**(2.2)**	(1.6)	**(10.4)**	(5.8)
Payments received for finance subleases	**19.7**	19.2	**52.7**	56.5
Interest received	**0.7**	1.5	**4.5**	5.4
Cash flows used in investing activities	**$ (102.4)**	$ (29.1)	**$ (349.5)**	$ (189.9)

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

Cash used in investing activities for the quarter increased primarily as a result of a decrease in proceeds on disposal of assets and a decrease in other long-term liabilities, offset by a decrease in capital investments.

Year-to-date, cash used in investing activities increased as a result of a decrease in proceeds on disposal of assets, a decrease in other long-term liabilities, a net change in leases and other receivables, and higher capital investments.

Capital Expenditures

The Company invested $207.1 million and $447.6 million in capital expenditures[1] for the quarter and year-to-date ended January 30, 2021, respectively (2020 – $106.4 million and $348.2 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 is on track with its plans 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 quarter and year-to-date ended January 30, 2021 compared to the prior year.

	13 Weeks Ended		39 Weeks Ended	
# of stores	**Jan. 30, 2021**	Feb. 1, 2020	**Jan. 30, 2021**	Feb. 1, 2020
Opened/relocated/acquired[2]	**6**	9	**19**	17
Expanded	**1**	3	**1**	3
Rebannered/redeveloped	**1**	-	**4**	1
Closed[2]	**7**	7	**19**	20
Opened - FreshCo[3]	**-**	4	**9**	8
Closed - pending conversion to FreshCo[3]	**-**	3	**1**	7
Opened - Farm Boy	**2**	2	**5**	2
Closed - pending conversion to Farm Boy	**-**	1	**3**	3

(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 January 30, 2021:

Square feet (in thousands)	**13 Weeks Ended Jan. 30, 2021**	**52 Weeks Ended Jan. 30, 2021**
Opened	**82**	**295**
Rebannered/redeveloped	**-**	**22**
Expanded	**1**	**1**
Closed	**(82)**	**(270)**
Net change before the impact of the acquisition of Farm Boy & expansion of FreshCo	**1**	**48**
Opened - FreshCo[4]	**-**	**331**
Closed - pending conversion to FreshCo[4]	**-**	**(163)**
Opened - Farm Boy	**60**	**166**
Closed - pending conversion to Farm Boy	**-**	**(85)**
Opened - Farm Boy relocation, net	**19**	**19**
Net change	**80**	**316**

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

At January 30, 2021, Sobeys' retail space totalled 40.2 million square feet, a 0.8% increase compared to 39.9 million square feet at February 1, 2020.

Financing Activities

Cash used in financing activities for the quarter ended January 30, 2021 increased due to repayment of credit facilities and the purchase of Non-Voting Class A shares.

Year-to-date, cash used in financing activities increased due to repayment of credit facilities offset by an increase in purchases of Non-Voting Class A shares in the prior year.

Free Cash Flow

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

	13 Weeks Ended		$	39 Weeks Ended		$
($ in millions)	**Jan. 30, 2021**	Feb. 1, 2020	Change	**Jan. 30, 2021**	Feb. 1, 2020	Change
Cash flows from operating activities	**$ 579.1**	$ 480.5	$ 98.6	**$ 1,297.3**	$ 1,201.8	$ 95.5
Add: proceeds on disposal of assets[1] and lease terminations	**24.0**	85.5	(61.5)	**64.0**	166.3	(102.3)
Less: payments of lease liabilities, net of payments received for finance subleases	**(143.7)**	(133.8)	(9.9)	**(376.8)**	(395.6)	18.8
Less: acquisitions of property, equipment, investment property and intangibles	**(143.7)**	(149.1)	5.4	**(448.5)**	(436.5)	(12.0)
Free cash flow[2]	**$ 315.7**	$ 283.1	$ 32.6	**$ 536.0**	$ 536.0	$ -

(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 January 30, 2021 primarily as a result of higher cash earnings, partially offset by higher income taxes paid during the quarter and a decrease in proceeds on disposal of assets.

Year-to-date, free cash flow remained consistent with the prior year with an increase in cash earnings and the timing of rent payments due to the reporting quarter end date, offset by a decrease in proceeds on disposal of assets, an increase in income taxes paid and an increase in capital investments.

Employee Future Benefit Obligations

For the quarter and year-to-date ended January 30, 2021, the Company contributed $4.9 million and $12.1 million, respectively (2020 – $5.7 million and $13.6 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)		**Jan. 30, 2021**		May 2, 2020		Feb. 1, 2020[1]
Shareholders' equity, net of non-controlling interest	**$**	**4,280.7**	$	3,924.6	$	3,771.1
Book value per common share[2]	**$**	**15.97**	$	14.51	$	13.98
Long-term debt, including current portion	**$**	**1,171.3**	$	1,675.2	$	1,685.5
Long-term lease liabilities, including current portion	**$**	**5,889.0**	$	5,266.2	$	5,184.0
Net funded debt to net total capital[2]		**59.5%**		60.2%		62.7%
Funded debt to EBITDA[2][3]		**3.3x**		3.7x		4.1x
EBITDA to interest expense[2][4]		**7.9x**		6.8x		7.2x
Trailing four-quarter EBITDA	**$**	**2,157.2**	$	1,892.4	$	1,664.7
Trailing four-quarter interest expense	**$**	**273.2**	$	279.3	$	231.8
Current assets to current liabilities		**0.9x**		0.8x		0.8x
Total assets	**$**	**14,962.4**	$	14,632.9	$	13,972.9
Total non-current financial liabilities	**$**	**7,169.9**	$	6,559.0	$	6,554.7

(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.

Sobeys' credit ratings remained unchanged from the prior quarter. The following table shows Sobeys' credit ratings as at March 9, 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 January 30, 2021, the outstanding amount of the credit facility was $73.3 million (2020 – $32.3 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 January 30, 2021, the outstanding amount of the facility was $ nil (2020 – $ nil) and Sobeys has issued $84.8 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. During the second quarter, this facility, originally scheduled to mature on November 4, 2020, was fully repaid.

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

The Company believes its cash and cash equivalents on hand, approximately $742 million in unutilized, aggregate credit facilities as of January 30, 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 January 30, 2021:

Authorized	Number of Shares Jan. 30, 2021	Number of Shares Feb. 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	**763,063,449**	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	Jan. 30, 2021	Feb. 1, 2020
Non-Voting Class A shares	**169,112,691**	**$ 1,986.2**	$ 2,008.9
Class B common shares	**98,138,079**	**7.3**	7.3
Shares held in trust	**(46,478)**	**(0.9)**	(3.2)
Total		**$ 1,992.6**	$ 2,013.0

The Company's share capital on January 30, 2021 compared to the same period in the last fiscal year is shown in the table below:

(Number of Shares)	13 Weeks Ended Jan. 30, 2021	13 Weeks Ended Feb. 1, 2020
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**171,098,794**	172,459,658
Issued during period	**3,214**	15,501
Purchased for cancellation	**(1,989,317)**	(1,519,829)
Issued and outstanding, end of period	**169,112,691**	170,955,330
Shares held in trust, beginning of period	**(52,046)**	(162,888)
Issued for future settlement of equity settled plans	**5,687**	-
Purchased for future settlement of equity settled plans	**(119)**	(199)
Shares held in trust, end of period	**(46,478)**	(163,087)
Issued and outstanding, net of shares held in trust, end of period	**169,066,213**	170,792,243
Class B common shares		
Issued and outstanding, beginning and end of period	**98,138,079**	98,138,079

During the third quarter and year-to-date ended January 30, 2021, the Company paid common dividends of $34.8 million and $104.8 million (February 1, 2020 – $32.3 million and $97.4 million) to its common shareholders. This represents a payment of $0.13 and $0.39 per share (February 1, 2020 – $0.12 and $0.36 per share) for common shareholders.

As at March 8, 2021, the Company had Non-Voting Class A and Class B common shares outstanding of 168,382,361 and 98,138,079, respectively. Options to acquire 5,027,219 Non-Voting Class A shares were outstanding as of January 30, 2021 (February 1, 2020 – 4,741,072). As at March 8, 2021, options to acquire 5,016,071 Non-Voting Class A shares were outstanding (March 10, 2020 – 4,709,490).

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 had purchased for cancellation 2,997,583 Class A shares at a weighted 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 purchases will be made through the facilities of the TSX and/or any alternative trading systems to the extent they are eligible. The price that Empire will pay for any such shares will be the market price at the time of acquisition. Purchases could commence on July 2, 2020 and shall terminate not later than July 1, 2021. The Company intends to complete the current NCIB and purchase up to 5.0 million Class A shares.

The Company's NCIB activity for the third quarter and year-to-date ended January 30, 2021 is shown in the table below:

	13 Weeks Ended		39 Weeks Ended	
($ in millions, except per share amounts)	**Jan. 30, 2021**	Feb. 1, 2020	**Jan. 30, 2021**	Feb. 1, 2020
Number of shares	**1,989,317**	1,519,829	**2,044,817**	2,997,583
Weighted average price per share	**$ 35.64**	$ 31.60	**$ 35.69**	$ 33.36
Cash consideration paid	**$ 70.9**	$ 48.0	**$ 73.0**	$ 100.0

Including purchases made subsequent to the end of the quarter, as at March 8, 2021, the Company has purchased 2,777,760 (March 10, 2020 – 2,997,583) Class A shares at a weighted average price of $36.00 (March 10, 2020 – $33.36) for a total consideration of $100.0 million (March 10, 2020 – $100.0 million).

Following the completion of the current NCIB, management intends to apply to renew its NCIB with the TSX, at a higher level of share purchases.

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.

Standards, Amendments and Interpretations Issued but not yet Adopted

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

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

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

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

Critical Accounting Estimates

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 November 1, 2020 and ended January 30, 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 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 January 30, 2021, Sobeys, through a wholly-owned subsidiary, sold and leased back one property to Crombie REIT for cash consideration of $17.1 million, resulting in a pre-tax gain of $0.9 million.

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.

During the quarter ended February 1, 2020, Sobeys, through a wholly-owned subsidiary, sold and leased back 50% of a distribution centre to Crombie REIT for cash consideration of $95.7 million, resulting in a pre-tax gain of $9.0 million. Subsequent to this transaction Crombie REIT owns 100% of the property.

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 January 30, 2021, Sobeys has accrued a total of $2.2 million in current 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		39 Weeks Ended	
($ in millions)	**Jan. 30, 2021**	Feb. 1, 2020	**Jan. 30, 2021**	Feb. 1, 2020
Net earnings	**$ 187.3**	$ 120.9	**$ 580.9**	$ 424.0
Income tax expense	**67.2**	45.6	**220.9**	153.4
Finance costs, net	**65.9**	68.5	**202.7**	210.1
Operating income	**320.4**	235.0	**1,004.5**	787.5
Depreciation	**195.0**	174.6	**568.5**	522.4
Amortization of intangibles	**18.1**	17.3	**56.4**	54.7
EBITDA	**$ 533.5**	$ 426.9	**$ 1,629.4**	$ 1,364.6

- 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		39 Weeks Ended	
($ in millions)	**Jan. 30, 2021**	Feb. 1, 2020	**Jan. 30, 2021**	Feb. 1, 2020
Finance costs, net	**$ 65.9**	$ 68.5	**$ 202.7**	$ 210.1
Plus: finance income, excluding interest income on lease receivables	**1.9**	2.6	**8.1**	8.4
Less: pension finance costs, net	**(1.9)**	(2.3)	**(6.0)**	(6.7)
Less: accretion expense on provisions	**(0.6)**	(0.3)	**(1.8)**	(2.7)
Interest expense	**$ 65.3**	$ 68.5	**$ 203.0**	$ 209.1

- 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 January 30, 2021, May 2, 2020 and February 1, 2020, respectively:

($ in millions)		**Jan. 30, 2021**		May 2, 2020		Feb. 1, 2020
Long-term debt due within one year	**$**	**47.2**	$	570.0	$	590.8
Long-term debt		**1,124.1**		1,105.2		1,094.7
Lease liabilities due within one year		**484.3**		466.2		422.4
Long-term lease liabilities		**5,404.7**		4,800.0		4,761.6
Funded debt		**7,060.3**		6,941.4		6,869.5
Less: cash and cash equivalents		**(784.3)**		(1,008.4)		(537.2)
Net funded debt		**6,276.0**		5,933.0		6,332.3
Total shareholders' equity, net of non-controlling interest		**4,280.7**		3,924.6		3,771.1
Net total capital	**$**	**10,556.7**	$	9,857.6	$	10,103.4

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 January 30, 2021, May 2, 2020 and February 1, 2020:

($ in millions, except per share information)		**Jan. 30, 2021**		May 2, 2020		Feb. 1, 2020
Shareholders' equity, net of non-controlling interest	**$**	**4,280.7**	$	3,924.6	$	3,771.1
Shares outstanding (basic)		**268.1**		270.4		269.7
Book value per common share	**$**	**15.97**	$	14.51	$	13.98

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

Approved by Board of Directors: March 9, 2021
Stellarton, Nova Scotia, Canada