EMPIRE

COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 13 WEEKS ENDED AUGUST 3, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") (TSX: EMP.A) and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the 13 weeks ended August 3, 2019 compared to the 13 weeks ended August 4, 2018. The MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the 13 weeks ended August 3, 2019 and the audited annual consolidated financial statements and the related MD&A for the 52 weeks ended May 4, 2019. 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 4, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The unaudited interim condensed consolidated financial statements include the accounts of Empire and its subsidiaries and structured entities which the Company is required to consolidate.

The information contained in this MD&A is current to September 11, 2019 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 52 weeks ended May 4, 2019 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 impact of Project Sunrise, including expected cost savings and efficiencies, the expected timing of the realization of overall and fiscal 2020 in-year incremental benefits, and the expected $50 million overachievement of the initial $500 million target which could be impacted by several factors including the execution and completion of category resets, time required by the Company to complete the project as well as the factors identified under the heading "Risk Management" in the fiscal 2019 annual MD&A;

- 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, and the number, location, feasibility and timing of construction and conversions, all of which may be impacted by construction schedules and permits, the economic environment and labour relations;

- The Company's expectations regarding the implementation of its online grocery home delivery service which may be impacted by the timing of launching the business, the customer response to the service and the performance of its business partner, Ocado Group plc ("Ocado");

- The Company's plans to purchase for cancellation Non-Voting Class A shares under the normal course issuer bid ("NCIB") which may be impacted by market and economic conditions, and the results of operations;

- The Company's estimates regarding future capital expenditures which may be impacted by operating results and the economic environment; 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 2019 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 $25.4 billion in annual sales and $14.0 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 123,000 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 as well as more than 350 retail fuel locations.

Strategic Focus(1)

The Company has a clear strategy to succeed in the medium to long-term. The strategy will develop as the retail environment changes and as the Company continues to transform.

(i) Reset our Foundation

In the fourth quarter of fiscal 2017, the Company launched Project Sunrise, a three-year transformation intended to simplify organizational structures and reduce costs. The transformation is on track and yielding benefits that are expected to exceed management's initial expectations of $500 million in annualized benefits by the end of fiscal 2020. The Company realized approximately $100 million of these benefits during fiscal 2018 through organizational design, strategic sourcing cost reductions and improvements in store operations. In fiscal 2019, the Company realized a further approximate $200 million of benefits, driven by initial rollouts of category resets and cost reductions in other areas.

For fiscal 2020 – the final year of the transformation – management expects to achieve at least $250 million of in-year benefits for a cumulative benefit of at least $550 million, an increase in its original projections for the three-year program. These in-year benefits for fiscal 2020 are expected to result from completion of the rollout of the category reset program, and continued cost reductions and operational improvements.

(ii) Bolster our Brand

The Company is focused on improving customer connection with its banner brands and differentiating these brands in a highly competitive marketplace. New branding, décor packages and taglines have been finalized for the Sobeys banner, and during fiscal 2020 changes to the marketing and branding approach for Safeway stores will be complete.

(iii) Win in our Stores

The Company's full service format stores are a key area of focus. Through category resets, a key element of Project Sunrise, the Company has assessed all product categories nationally to ensure stores have the items customers want most. Category resets are well underway in stores and are expected to be complete by the fall of 2019. Management has completed many operational improvements in stores and the related supply chain and expects this momentum to continue throughout fiscal 2020, and result in further improvements to customer experience through improved execution and better in-stock, shrink levels, merchandising and marketing.

(1) This section constitutes forward-looking information described under the "Forward-Looking Information" section of this MD&A.

(iv) Enhance Discount

In December 2017, 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. Nearly two years into execution of this plan, the Company is on track to open approximately 65 locations within the initial five year time frame.

22 FreshCo locations have been confirmed:

- 7 stores are open and operating:
    - 5 in British Columbia ("B.C."); and
    - 2 in Manitoba;
- 11 stores are expected to open in fiscal 2020 in B.C.; and
- 4 stores are expected to open in fiscal 2021 in Saskatchewan.

The Western Canada FreshCo stores are branded with the new, evolved FreshCo 2.0 look which offers a strong discount and value experience. The evolved branding continues to be rolled out to all FreshCo stores in Ontario.

(v) Fill the Urban Gap

The Company is focused on increasing its market share in urban markets through a two-pronged approach of introducing an industry leading grocery e-commerce platform to Canadians and rapidly growing the number of Farm Boy locations in Ontario.

On May 9, 2019, the Company unveiled *Voilà by Sobeys* and *Voilà par IGA*, the name and brand for its online grocery home delivery service for the Greater Toronto Area ("GTA"), Ottawa and cities in the province of Quebec, respectively. Sobeys, in partnership with Ocado, an industry-leading grocery e-commerce company, is developing its first Customer Fulfillment Centre ("CFC") in the GTA with delivery to customers scheduled to test and soft launch in the spring of 2020.

Empire also announced plans to launch *Voilà par IGA* and its second CFC in Montreal in 2021. The Company will lease the location from Crombie Real Estate Investment Trust ("Crombie REIT") and will be built to Empire's specifications.

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, mostly in the GTA. Farm Boy's private label will be part of *Voilà's* offering, introducing more Canadians to this growing brand.

(vi) Invest in Innovation

The Company is investing in innovation, putting in place teams, tools and culture needed to drive innovation in the business. In line with this commitment to innovation, the Company will leverage digital and data to accelerate its growth and pursue targeted initiatives in data analytics and artificial intelligence to drive smarter merchandising decisions, improve store efficiency and deliver more relevant customer communication.

Other Significant Items

Business Acquisition

On September 24, 2018, the Company, through a subsidiary, signed an agreement to acquire the business of Farm Boy, a food retailer with a network of 26 stores in Ontario, for a total purchase price of $800 million. Following clearance of regulatory conditions, the transaction closed on December 10, 2018.

Farm Boy is managed as a separate company within Empire and Farm Boy's co-CEOs, together with members of the Farm Boy senior management team, have reinvested for a 12% interest of the continuing Farm Boy business. Concurrent with the reinvestment, the parties entered into put and call options including options for Sobeys to acquire the remaining 12% at any time after five years following the acquisition date. As a result, a non-controlling interest has been recognized at the date of acquisition, as well as a financial liability of $70 million, based on the present value of the amount payable on exercise of the non-controlling interest put liability in accordance with IFRS 9 "Financial instruments" ("IFRS 9"). The non-controlling interest put liability is calculated based on the amount payable upon exercise based on management's best estimate of future earnings of Farm Boy at a predetermined date. The initial and subsequent fair value measurement of the put liability is classified as Level 3 within the three-level hierarchy of IFRS 13 "Fair value measurement". Subsequent remeasurement will be recorded through retained earnings.

The Company financed the transaction through a combination of cash on hand and a new $400 million senior, unsecured non-revolving credit facility.

Store Closure and Conversion Costs

In the first quarter of fiscal 2020, the Company expensed $21 million (2019 – $ nil) in closure and conversion costs. These costs relate to the announced conversion of ten Safeway locations to FreshCo stores and conversion of two Company locations to Farm Boy stores that were announced in the first quarter. The conversion costs for another twelve FreshCo locations were expensed when the locations were announced in prior quarters.

SUMMARY RESULTS – FIRST QUARTER

($ in millions, except per share amounts)	13 Weeks Ended August 3, 2019	August 4, 2018	$ Change	% Change
Sales	**$ 6,744.1**	$ 6,460.3	$ 283.8	4.4%
Gross profit[1]	**1,660.4**	1,512.3	148.1	9.8%
Operating income	**266.1**	174.7	91.4	52.3%
Adjusted operating income[1]	**270.6**	181.0	89.6	49.5%
EBITDA[1]	**460.0**	278.7	181.3	65.1%
Adjusted EBITDA[1]	**460.0**	278.7	181.3	65.1%
Finance costs, net	**71.7**	23.1	48.6	210.4%
Income tax expense	**51.6**	41.5	10.1	24.3%
Non-controlling interest	**12.2**	14.5	(2.3)	(15.9)%
Net earnings[2]	**130.6**	95.6	35.0	36.6%
Adjusted net earnings[1][2]	**133.9**	100.2	33.7	33.6%
Basic earnings per share				
Net earnings[2]	**$ 0.48**	$ 0.35		
Adjusted net earnings[2]	**$ 0.49**	$ 0.37		
Basic weighted average number of shares outstanding (in millions)	**271.8**	271.8		
Diluted earnings per share				
Net earnings[2]	**$ 0.48**	$ 0.35		
Adjusted net earnings[2]	**$ 0.49**	$ 0.37		
Diluted weighted average number of shares outstanding (in millions)	**272.9**	272.3		
Dividend per share	**$ 0.12**	$ 0.11		

Consolidated operating results as a % of sales	13 Weeks Ended August 3, 2019	August 4, 2018
Gross margin[1]	**24.6%**	23.4%
Adjusted operating income	**4.0%**	2.8%
EBITDA	**6.8%**	4.3%
Adjusted EBITDA	**6.8%**	4.3%
Adjusted net earnings[2]	**2.0%**	1.6%

	13 Weeks Ended August 3, 2019[3]	August 4, 2018
Same-store sales[1] growth	**1.7%**	2.3%
Same-store sales growth, excluding fuel	**2.4%**	1.3%
Effective income tax rate	**26.5%**	27.4%

Food Retailing

The following is a review of Empire's Food retailing segment's financial performance, comprising the consolidated results of Sobeys for the first quarter ended August 3, 2019 compared to the first quarter ended August 4, 2018.

($ in millions)	13 Weeks Ended August 3, 2019	August 4, 2018	$ Change	% Change
Sales	**$ 6,744.1**	$ 6,460.3	$ 283.8	4.4%
Gross profit	**1,660.4**	1,512.3	148.1	9.8%
Operating income	**254.4**	152.4	102.0	66.9%
Adjusted operating income	**258.9**	158.7	100.2	63.1%
EBITDA	**448.1**	256.4	191.7	74.8%
Adjusted EBITDA	**448.1**	256.4	191.7	74.8%
Net earnings[2]	**122.2**	80.7	41.5	51.4%
Adjusted net earnings[2]	**125.5**	85.3	40.2	47.1%

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(2) Net of non-controlling interest.
(3) In the current year, same-store sales growth metrics reflect the Farm Boy acquisition.

IFRS 16 Impact

The table below outlines the impact of the adoption of IFRS 16, "Leases" ("IFRS 16"), on certain financial metrics for the quarter ended August 3, 2019:

	13 Weeks Ended				
($ in millions, except per share amounts)	**August 3, 2019**	August 4, 2018	Change	Impact of IFRS 16[1]	Change (excl. IFRS 16)
EBITDA	**$ 460.0**	$ 278.7	$ 181.3	$ 129.0	$ 52.3
Adjusted EBITDA	**460.0**	278.7	181.3	129.0	52.3
EBITDA margin	**6.8%**	4.3%	2.5%	1.9%	0.6%
Finance costs, net	**71.7**	23.1	48.6	46.3	2.3
Net earnings[2]	**130.6**	95.6	35.0	(0.9)	35.9
Adjusted net earnings[2]	**133.9**	100.2	33.7	(2.0)	35.7
Adjusted EPS[3][4] (fully diluted)	**0.49**	0.37	0.12	(0.01)	0.13

(1) Reflects the impact of changing accounting standards from IAS 17, "Leases" ("IAS 17") to IFRS 16 in the first quarter of fiscal 2020, including the add back of $3.5 million ($2.5 million after tax) in historical straight-line expense under IAS 17.
(2) Net of non-controlling interest.
(3) Earnings per share ("EPS").
(4) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

Empire Company Limited Consolidated Operating Results

Empire's results for the first quarter ended August 3, 2019 include Farm Boy operations. All metrics, including same-store sales, include the consolidation of Farm Boy operations.

Sales

Sales for the quarter increased by 4.4% driven by strong performance across the business, the consolidation of Farm Boy results, and positive internal food inflation. These increases were partially offset by lower fuel prices.

Gross Profit

Gross profit for the quarter increased by 9.8% primarily as a result of the increase in sales, the inclusion of Farm Boy results and category reset benefits. These increases were partially offset by store closures in Western Canada.

Gross margin for the quarter increased to 24.6% from 23.4% last year primarily as a result of category reset benefits and positive margin rate contributions from the inclusion of Farm Boy results. This was slightly offset by the effect of sales mix between banners.

Operating Income

($ in millions)	13 Weeks Ended August 3, 2019	August 4, 2018	$ Change
Consolidated operating income:			
Food retailing	**$ 254.4**	$ 152.4	$ 102.0
Investments and other operations:			
Crombie REIT	**13.2**	20.3	(7.1)
Genstar	**1.2**	2.6	(1.4)
Other operations, net of corporate expenses	**(2.7)**	(0.6)	(2.1)
	11.7	22.3	(10.6)
Operating income	**$ 266.1**	$ 174.7	$ 91.4
Adjustments:			
Intangible amortization associated with the Canada Safeway acquisition	**$ 4.5**	$ 6.3	
	4.5	6.3	(1.8)
Adjusted operating income	**$ 270.6**	$ 181.0	$ 89.6

For the quarter ended August 3, 2019, operating income increased mainly as a result of improved earnings from the Food retailing segment due to higher sales and improved margins, offset by higher selling and administrative expenses. Selling and administrative expenses increased as a result of the inclusion of Farm Boy results, non-recurring impairment reversals in the prior year, and costs associated with the closure and conversion of stores as part of the ongoing expansion of the FreshCo discount format into Western Canada. Higher retail labour was due to increased sales volume. These increases in selling and administrative expenses were partially offset by the implementation of IFRS 16 and savings achieved from Project Sunrise.

Operating income from the Investments and other operations segment decreased due to a non-recurring prior year disposal of properties by Crombie REIT.

EBITDA

For the quarter ended August 3, 2019, EBITDA increased to $460.0 million from $278.7 million in the prior year mainly as a result of the same factors affecting operating income. Excluding the impact of IFRS 16, EBITDA would have been $331.0 million, an increase of $52.3 million compared to the prior year and EBITDA as a percentage of sales would have been 4.9%, an increase of 0.6% compared to the prior year.

Finance Costs

For the first quarter ended August 3, 2019, net finance costs increased primarily due to the impact of lease finance expenses as a result of the implementation of IFRS 16. Excluding the impact of IFRS 16, net finance costs would have been $25.4 million, an increase of $2.3 million compared to the prior year. This increase is mainly a result of interest on a $400.0 million senior, unsecured non-revolving credit facility incurred from the closing date of the Farm Boy acquisition.

Income Taxes

The effective income tax rate for the first quarter ended August 3, 2019 was 26.5% compared to 27.4% in the same quarter last year. The current quarter effective tax rate was lower than the statutory rate primarily due to differing tax rates of various entities. The prior period’s effective income tax rate was in line with the statutory rate.

Net Earnings

The following is a reconciliation of net earnings to adjusted net earnings:

	13 Weeks Ended		$
($ in millions, except per share amounts)	**August 3, 2019**	August 4, 2018	Change
Net earnings[1]	**$ 130.6**	$ 95.6	$ 35.0
EPS (fully diluted)	**$ 0.48**	$ 0.35	
Adjustments (net of income taxes):			
Intangible amortization associated with the Canada Safeway acquisition	**3.3**	4.6	
	3.3	4.6	(1.3)
Adjusted net earnings[1]	**$ 133.9**	$ 100.2	$ 33.7
Adjusted EPS (fully diluted)	**$ 0.49**	$ 0.37	
Diluted weighted average number of shares outstanding (in millions)	**272.9**	272.3	

(1) Net of non-controlling interest.

Investments and Other Operations

	13 Weeks Ended		$
($ in millions)	**August 3, 2019**	August 4, 2018	Change
Crombie REIT	**$ 13.2**	$ 20.3	$ (7.1)
Genstar	**1.2**	2.6	(1.4)
Other operations, net of corporate expenses	**(2.7)**	(0.6)	(2.1)
	$ 11.7	$ 22.3	$ (10.6)

For the quarter ended August 3, 2019, income from investments and other operations decreased primarily as a result of a prior year disposal of properties by Crombie REIT that resulted in higher equity earnings from Crombie REIT last year.

Investment Portfolio

At August 3, 2019, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	August 3, 2019			May 4, 2019			August 4, 2018		
($ in millions)	**Fair Value**	**Carrying Value**	**Unrealized Gain**	Fair Value	Carrying Value	Unrealized Gain	Fair Value	Carrying Value	Unrealized Gain
Investment in associates									
Crombie REIT[1]	**$ 981.7**	**$ 467.3**	**$ 514.4**	$ 904.7	$ 466.5	$ 438.2	$ 834.0	$ 456.0	$ 378.0
Genstar Canadian real estate partnerships[2]	**88.2**	**88.2**	**-**	94.6	94.6	-	82.8	82.8	-
Genstar U.S. real estate partnerships[2]	**15.8**	**15.8**	**-**	20.3	20.3	-	22.5	22.5	-
Investment in joint ventures[2]	**7.6**	**7.6**	**-**	8.0	8.0	-	9.5	9.5	-
	$ 1,093.3	**$ 578.9**	**$ 514.4**	$ 1,027.6	$ 589.4	$ 438.2	$ 948.8	$ 570.8	$ 378.0

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of August 2, 2019.

(2) Assumes fair value equals carrying value.

QUARTERLY RESULTS OF OPERATIONS

($ in millions, except per share amounts)	**Fiscal 2020 Q1 (13 Weeks) Aug. 3, 2019**	Fiscal 2019 Q4 (13 Weeks) May 4, 2019	Fiscal 2019 Q3 (13 Weeks) Feb. 2, 2019	Fiscal 2019 Q2 (13 Weeks) Nov. 3, 2018	Fiscal 2019 Q1 (13 Weeks) Aug. 4, 2018	Fiscal 2018 Q4 (13 Weeks) May 5, 2018	Fiscal 2018 Q3 (13 Weeks) Feb. 3, 2018	Fiscal 2018 Q2 (13 Weeks) Nov. 4, 2017
Sales	**$ 6,744.1**	$ 6,220.4	$ 6,247.3	$ 6,214.0	$ 6,460.3	$ 5,886.1	$ 6,029.2	$ 6,026.1
Operating income	**266.1**	194.2	110.0	173.4	174.7	110.6	108.1	2.6
EBITDA[1]	**460.0**	300.1	214.6	276.1	278.7	217.8	216.1	113.0
Net earnings (loss)[2]	**130.6**	122.1	65.8	103.8	95.6	71.0	58.1	(23.6)
Adjusted net earnings[2]	**133.9**	126.5	72.9	110.4	100.2	93.0	89.9	73.9
Per share information, basic								
Net earnings (loss)[2][3]	**$ 0.48**	$ 0.45	$ 0.24	$ 0.38	$ 0.35	$ 0.26	$ 0.21	$ (0.09)
Adjusted net earnings[2]	**$ 0.49**	$ 0.47	$ 0.27	$ 0.40	$ 0.37	$ 0.35	$ 0.33	$ 0.27
Basic weighted average number of shares outstanding (in millions)	**271.8**	271.9	271.9	271.8	271.8	271.8	271.7	271.8
Per share information, diluted								
Net earnings (loss)[2][3]	**$ 0.48**	$ 0.45	$ 0.24	$ 0.38	$ 0.35	$ 0.26	$ 0.21	$ (0.09)
Adjusted net earnings[2]	**$ 0.49**	$ 0.46	$ 0.27	$ 0.40	$ 0.37	$ 0.35	$ 0.33	$ 0.27
Diluted weighted average number of shares outstanding (in millions)	**272.9**	272.8	272.5	272.2	272.3	272.2	272.2	271.8

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

(2) Net of non-controlling interest.

(3) For the 13 weeks ended November 4, 2017, the weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

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, the Company's results incorporate the results of Farm Boy.

Sales include fluctuations in internal food inflation. The Company does experience some seasonality, as evidenced in the results presented above, in particular during the summer months and over the holidays when retail sales trend higher and can result in stronger operating results. The sales, operating income, EBITDA, net earnings (loss), and adjusted net earnings have been influenced by one-time adjustments, other investing activities, the competitive environment, cost management initiatives, food price and general industry trends and by other risk factors as outlined in the "Risk Management" section of the fiscal 2019 annual MD&A.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights significant cash flow components for the relevant periods. For additional detail, please refer to the condensed consolidated statements of cash flows in the Company's unaudited interim condensed consolidated financial statements for the quarter ended August 3, 2019.

($ in millions)	13 Weeks Ended August 3, 2019	13 Weeks Ended August 4, 2018	$ Change
Cash flows from operating activities	**$ 405.3**	$ 156.7	$ 248.6
Cash flows used in investing activities	**(24.8)**	(43.4)	18.6
Cash flows used in financing activities	**(239.1)**	(62.8)	(176.3)
Increase in cash and cash equivalents	**$ 141.4**	$ 50.5	$ 90.9

As a result of the adoption of IFRS 16 in the first quarter of fiscal 2020, lease payments of $148.5 million and lease payments received for finance subleases of $18.6 million that were previously classified as cash flows from operating activities have been classified as cash flows used in financing activities and investing activities, respectively. Prior period comparatives have not been restated.

Operating Activities

Cash flows from operating activities for the first quarter increased as a result of the impact of IFRS 16 as described above. Normalized for the impact of IFRS 16, cash flows from operating activities increased as a result of higher cash flows from earnings and an improved trend in non-cash working capital.

Investing Activities

The table below outlines details of investing activities of the Company for the quarter ended August 3, 2019 compared to the quarter ended August 4, 2018:

($ in millions)	13 Weeks Ended August 3, 2019	13 Weeks Ended August 4, 2018	$ Change
Acquisitions of property, equipment, investment property and intangibles	**$ (91.4)**	$ (47.6)	$ (43.8)
Proceeds on disposal of assets	**40.2**	18.4	21.8
Loans and other receivables	**2.9**	(0.3)	3.2
Other assets and other long-term liabilities	**5.9**	4.2	1.7
Business acquisitions	**(3.0)**	(19.8)	16.8
Payments received for finance subleases	**18.6**	-	18.6
Interest received	**2.0**	1.7	0.3
Cash flows used in investing activities	**$ (24.8)**	$ (43.4)	$ 18.6

Cash used in investing activities for the first quarter decreased primarily as a result of an increase in proceeds on disposal of assets, a decrease in business acquisitions due to the acquisition of Kim Phat in the prior year, and the reclassification of lease payments received for finance subleases under IFRS 16 as described above. These impacts were partially offset by an increase in capital spending.

The Company invested $91.4 million in capital expenditures in the first quarter of fiscal 2020, including renovations, construction of new stores, construction of an e-commerce fulfillment centre and the expansion of FreshCo into Western Canada. The Company expects to invest approximately $600.0 million in its operations during fiscal 2020, which includes approximately $70.0 million related to expansion of the Farm Boy store network in Ontario.

The table below outlines details of investments by Sobeys in its store network during the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019.

# of stores	13 Weeks Ended August 3, 2019	13 Weeks Ended August 4, 2018
Opened/relocated/acquired	**6**	10
Expanded	**-**	1
Rebannered/redeveloped	**1**	2
Closed	**6**	10
Opened - FreshCo[(1)]	**4**	-
Closed - converted or pending conversion to FreshCo[(1)]	**11**	-

(1) Specific to converted Western Canada FreshCo stores.

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended August 3, 2019:

Square feet (in thousands)	**13 Weeks Ended August 3, 2019**	**52 Weeks Ended August 3, 2019**
Opened	**14**	**286**
Relocated	**-**	**87**
Closed	**(24)**	**(197)**
Net change before the impact of the acquisition of Farm Boy & expansion of FreshCo	**(10)**	**176**
Opened - FreshCo[(1)]	**1**	**(32)**
Opened - Farm Boy	**-**	**43**
Acquired - Farm Boy	**-**	**413**
Net change	**(9)**	**600**

(1) Specific to converted Western Canada FreshCo stores, net of Safeway closures.

At August 3, 2019, Sobeys' square footage totaled 39.9 million, a 1.5% increase over 39.3 million square feet at August 4, 2018. Excluding the impact of Farm Boy, net store square footage increased by 0.3%.

Financing Activities

Cash used in financing activities for the quarter increased due to the reclassification of payments of lease liabilities under IFRS 16 as described above and the repurchase 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. The definition of free cash flow was changed in the first quarter of fiscal 2020 to normalize for the impact of IFRS 16. The definition is updated to include the impact of net lease cash payments made.

($ in millions)	13 Weeks Ended August 3, 2019	13 Weeks Ended August 4, 2018	$ Change
Cash flows from operating activities	**$ 405.3**	$ 156.7	$ 248.6
Add: proceeds on disposal of property, equipment and investment property	**40.2**	18.4	21.8
Less: payments of lease liabilities, net of payments received for finance subleases	**(129.9)**	-	(129.9)
Less: acquisitions of property, equipment, investment property and intangibles	**(91.4)**	(47.6)	(43.8)
Free cash flow[(1)]	**$ 224.2**	$ 127.5	$ 96.7

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

Free cash flow increased for the quarter ended August 3, 2019 primarily due to increased cash flows from operating activities, offset by increased capital spending.

Employee Future Benefit Obligations

For the first quarter ended August 3, 2019, the Company contributed $5.0 million (2019 – $3.0 million) to its registered defined benefit pension plans. The Company expects to contribute approximately $12.1 million to these plans in fiscal 2020.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)	**August 3, 2019[1][2]**	August 3, 2019 Impact of IFRS 16	May 4, 2019[1]	August 4, 2018
Shareholders' equity, net of non-controlling interest	**$ 3,623.2**	$ (432.9)	$ 4,003.3	$ 3,776.4
Book value per common share[3]	**$ 13.33**	$ (1.59)	$ 14.72	$ 13.89
Long-term debt, including current portion	**$ 1,976.9**	$ (29.1)	$ 2,020.9	$ 1,645.4
Long-term lease liabilities, including current portion	**$ 4,944.4**	$ 4,944.4	$ -	$ -
Net funded debt to net total capital[3]	**63.2%**	38.8%	26.8%	20.4%
Funded debt to adjusted EBITDA[3][4]	**5.5x**	3.7x	1.9x	1.6x
Adjusted EBITDA to interest expense[3][5]	**9.2x**	(3.4)x	12.4x	11.0x
Trailing four-quarter adjusted EBITDA	**$ 1,257.5**	$ 129.0	$ 1,076.2	$ 1,014.6
Trailing four-quarter interest expense	**$ 137.0**	$ 47.1	$ 86.5	$ 92.3
Current assets to current liabilities [6]	**0.9x**		1.0x	0.9x
Total assets[6]	**$ 13,958.4**		$ 9,602.4	$ 8,746.2
Total non-current financial liabilities[6]	**$ 7,124.1**		$ 2,838.1	$ 1,880.8

(1) Key Financial Condition Measures reflect the Farm Boy acquisition.
(2) Key Financial Condition Measures are impacted by the implementation of IFRS 16.
(3) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.
(4) Calculation uses trailing four-quarter adjusted EBITDA.
(5) Calculation uses trailing four-quarter adjusted EBITDA and interest expense.
(6) See "Accounting Standards and Policies" section of this MD&A for the impact of IFRS 16 on the assets and liabilities metrics for the quarter ended August 3, 2019.

During the first quarter ended August 3, 2019, Dominion Bond Rating Service ("DBRS") upgraded Sobeys' credit rating from BB (high) with a positive trend to BBB (low) with a stable trend. Standard & Poor's ("S&P") confirmed Sobeys' rating at BB+ and upgraded Sobeys' outlook from stable to positive.

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

On June 2, 2017, Sobeys established a senior, unsecured non-revolving credit facility for $500.0 million. The facility bears floating interest tied to Canadian prime rate or bankers' acceptance rates. The facility was fully utilized on August 8, 2018 to repay long-term debt.

On December 5, 2018, Sobeys established a senior, unsecured non-revolving credit facility for $400.0 million. The facility bears floating interest tied to 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.

The Company believes that its cash and cash equivalents on hand, unutilized bank credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short 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 August 3, 2019:

	Number of Shares	
Authorized	**August 3, 2019**	August 4, 2018
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	**767,558,549**	768,105,849
Class B common shares, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding ($ in millions)	**Number of Shares**	**August 3, 2019**	August 4, 2018
Non-Voting Class A shares	**173,271,822**	**$ 2,036.0**	$ 2,039.9
Class B common shares	**98,138,079**	**7.3**	7.3
Shares held in trust	**(211,568)**	**(4.1)**	(5.2)
Total		**$ 2,039.2**	$ 2,042.0

The Company's share capital on August 3, 2019 compared to the same period in the last fiscal year is shown in the table below:

	13 Weeks Ended	
(Number of Shares)	**August 3, 2019**	August 4, 2018
Non-Voting Class A shares		
Issued and outstanding, beginning of period	**173,661,495**	173,547,591
Issued during period	**157,627**	88,002
Repurchase for cancellation	**(547,300)**	-
Issued and outstanding, end of period	**173,271,822**	173,635,593
Shares held in trust, beginning of period	**(271,968)**	(308,504)
Issued for future settlement of equity settled plans	**60,876**	39,640
Purchased for future settlement of equity settled plans	**(476)**	(1,479)
Shares held in trust, end of period	**(211,568)**	(270,343)
Issued and outstanding, net of shares held in trust, end of period	**173,060,254**	173,365,250
Class B common shares		
Issued and outstanding, beginning and end of period	**98,138,079**	98,138,079

During the first quarter of fiscal 2020, the Company paid common dividends of $32.6 million (2019 – $29.9 million) to its equity holders. This represents a payment of $0.12 per share (2019 – $0.11 per share) for common shareholders.

As at September 10, 2019, the Company had Non-Voting Class A and Class B common shares outstanding of 173,307,509 and 98,138,079, respectively. Options to acquire 5,231,655 Non-Voting Class A shares were outstanding as of August 3, 2019 (August 4, 2018 – 4,689,376). As at September 10, 2019, options to acquire 5,104,149 Non-Voting Class A shares were outstanding (September 11, 2018 – 4,678,563).

Normal Course Issuer Bid ("NCIB")

In the first quarter of fiscal 2020, the Company announced the establishment of an NCIB program effective for one year from July 2, 2019. The NCIB program allows for the purchase for cancellation of up to 3.5 million Non-Voting Class A shares ("Class A shares"). The Company repurchased 547,300 Class A shares in the first quarter of fiscal 2020 at an average price of $34.62 for a total consideration of $18.9 million. The Company intends to repurchase up to $100.0 million of Class A shares under the current NCIB.

Automatic Share Purchase Plan ("ASPP")

Empire also announced that it intends to enter into an automatic share purchase plan with its designated broker to facilitate repurchases of Empire's Class A shares under its previously announced NCIB.

Under the ASPP, Empire's designated broker may purchase Class A shares at times when Empire would not ordinarily be permitted to make such purchases due to its internal trading black-out periods or applicable regulatory restrictions. Purchases made pursuant to the ASPP will be made by the Company's designated broker based upon the NCIB parameters prescribed by the TSX, applicable Canadian securities laws and the instructions given by Empire prior to the commencement of any such blackout period captured in a written agreement between the Company and its designated broker. The ASPP will commence on September 16, 2019 and terminate on the earliest of the date on which: (i) the purchase limit under the NCIB has been reached; (ii) the NCIB expires; and (iii) the Company terminates the ASPP in accordance with its terms. The ASPP will be entered into in accordance with the requirements of applicable Canadian securities laws and is subject to regulatory approval.

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 4, 2019 with the exception of the following:

Changes to Accounting Standards Adopted During Fiscal 2020

(i) Leases

Effective May 5, 2019, the Company adopted IFRS 16, which replaces IAS 17, "Leases" ("IAS 17") and related interpretations.

IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases except for short-term and low-value asset leases. Lessors continue to classify leases as operating or finance leases. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for all leases where the Company is a lessee. The Company transitioned to IFRS 16 using the modified retrospective approach with the cumulative impact of initially applying the new standard recognized in retained earnings on May 5, 2019. Prior period comparatives have not been restated. The implementation of IFRS 16 had no impact on earnings per share in the quarter. The Company has recognized taxable and deductible temporary differences arising on the transition to IFRS 16. This has resulted in the recognition of a net deferred tax asset as a result of the balances recognized on transition as at May 5, 2019 included in the transition impacts disclosed in Note 16 of the Company's unaudited interim condensed consolidated financial statements.

The Company has applied the following practical expedients, as permitted by IFRS 16:

- applying a single discount rate to a portfolio of leases with similar characteristics;
- relying on previous assessment of whether a lease is onerous;
- accounting for leases which end within 12 months of the date of initial application as short-term leases;
- excluding initial direct costs from the measurement of the right-of-use asset; and
- using hindsight (for example, in determining the lease term where the contract includes extension or termination options).

Transition impacts related to IFRS 16 adoption are outlined in Note 16 of the Company's unaudited interim condensed consolidated financial statements.

As a result of adoption of IFRS 16 the Company has amended its accounting policies related to leases as follows:

The Company as a lessee

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

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

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

The Company as a lessor

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

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

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

Sale and leaseback transactions

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

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

		($ in millions)
Asset increase (decrease):		
Prepaid expenses	$	(43.4)
Current loans and other receivables		53.6
Non-current loans and other receivables		519.0
Other assets		(7.3)
Property and equipment		(22.3)
Right-of-use assets		3,800.7
Intangibles		(126.7)
Deferred tax assets		127.3
Total assets	**$**	**4,300.9**
Liabilities and equity (increase) decrease:		
Current provisions	$	7.4
Long-term debt due within one year		6.5
Lease liabilities due within one year		(424.4)
Long-term provisions		23.7
Long-term debt		22.6
Long-term lease liabilities		(4,569.6)
Other long-term liabilities		164.4
Deferred tax liabilities		36.5
Retained earnings		432.0
Total liabilities and equity	**$**	**(4,300.9)**

The Company used its incremental borrowing rate as at May 5, 2019, to measure lease liabilities. The weighted average incremental borrowing rate is 4.3%. The weighted average lease term remaining as at May 5, 2019 is 13 years.

The following reconciliation is between lease liabilities recognized on May 5, 2019, and operating lease commitments disclosed under IAS 17 as at May 4, 2019, discounted using the weighted average incremental borrowing rate as at the date of initial application:

		($ in millions)
Operating lease commitments as at May 4, 2019	$	5,837.8
Historical lease payment net of onerous contract provisions recognized		31.1
Historical finance lease liabilities recognized		29.1
Adjustments as a result of change in lease term assumptions for sites with historical off market leases, net		237.2
Adjustments as a result of change in lease term assumptions		253.4
Effect of discounting using the lessee's incremental borrowing rate		(1,394.6)
Lease liabilities recognized as at May 5, 2019	$	4,994.0

During the quarter ended August 3, 2019, changes in right-of-use assets are as follows:

		($ in millions)
Opening value as at May 5, 2019	$	3,800.7
Additions		42.4
Depreciation		(86.2)
Closing balance as at August 3, 2019	$	3,756.9

Net finance costs includes $53.2 million finance expense related to lease liabilities and $6.1 million finance income related to finance subleases.

During the first quarter of fiscal 2020, the Company completed two sale and leaseback transactions which resulted in a right-of-use adjustment of $2.9 million.

Based on current estimates and information available, the Company continues to expect IFRS 16 adoption will not have a material impact on net earnings and earnings per share in fiscal 2020.

The following table provides the impact of the adoption of IFRS 16 in the first quarter of fiscal 2020:

($ in millions) increase/(decrease)		IFRS 16 Impact	Description
Other income – adjustment to sale and leaseback transaction	$	(2.9)	Calculated adjustment to right-of-use balance for asset retained by the Company
Net occupancy expense		131.9	Rent expense removed and recorded as depreciation expense and net finance expense
Depreciation expense		(85.4)	Depreciation expense to right-of-use assets
Intangible amortization		1.5	Off market lease intangibles part of right-of-use balance
Net finance costs		(46.3)	Lease finance expense net of finance income
Earnings before income taxes		(1.2)	Net pre-tax impact of IFRS 16
Earnings before income taxes excluding sale and leaseback impact	$	1.7	Net pre-tax impact of IFRS 16 excluding impact of sale and leaseback transactions

(ii) Uncertainty Over Income Tax Treatments

Effective during the quarter ended August 3, 2019, the Company adopted IFRIC 23 "Uncertainty over income tax treatments" to clarify how to apply the recognition and measurement requirements in IAS 12 "Income taxes" when there is uncertainty related to tax treatments. These amendments are effective for annual periods beginning on or after January 1, 2019. This adoption did not have a material impact on the Company's unaudited interim condensed consolidated financial statements.

Critical Accounting Estimates

Critical accounting estimates used by the Company's management are discussed in detail in the fiscal 2019 annual MD&A.

Internal Control Over Financial Reporting

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

There have been no changes in the Company's ICFR during the period beginning May 5, 2019 and ended August 3, 2019 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.

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 2019 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.

In addition, management adjusts certain measures and metrics, including EBITDA and net earnings to provide investors and analysts with a more comparable year-over-year performance metric. These adjustments may impact the analysis of trends in performance and affect the comparability of the Company's core financial results. By excluding these items, management is not implying they are non-recurring.

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.
- Adjusted operating income is operating income excluding certain items to better analyze trends in performance. These adjustments result in a more comparable economic representation. Adjusted operating income is reconciled to operating income in its respective subsection of the "Summary Results – First Quarter" section. Adjusted operating income for the Food Retailing Segment is reconciled to operating income in the "Food Segment Reconciliations" section of this MD&A.
- 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.

The following table reconciles net earnings to EBITDA:

	13 Weeks Ended	
($ in millions)	**August 3, 2019**	August 4, 2018
Net earnings	**$ 142.8**	$ 110.1
Income tax expense	**51.6**	41.5
Finance costs, net	**71.7**	23.1
Operating income	**266.1**	174.7
Depreciation	**174.7**	82.7
Amortization of intangibles	**19.2**	21.3
EBITDA	**$ 460.0**	$ 278.7

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance.

- 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	
($ in millions)	**August 3, 2019**	August 4, 2018
Finance costs, net	**$ 71.7**	$ 23.1
Plus: finance income, excluding interest income on lease receivables	**3.1**	2.9
Less: net pension finance costs	**(2.2)**	(3.0)
Less: accretion expense on provisions	**(1.0)**	(1.9)
Interest expense	**$ 71.6**	$ 21.1

- Adjusted net earnings is net earnings, net of non-controlling interest, excluding certain items to better analyze trends in performance and financial results. These adjustments result in a more comparable economic representation of the underlying business. Adjusted net earnings is reconciled to net earnings in its respective subsection of the "Summary Results – First Quarter" section. Adjusted net earnings for the Food Retailing Segment is reconciled to net earnings in the "Food Segment Reconciliations" section of this MD&A.

- Adjusted EPS (fully diluted) is calculated as adjusted net earnings divided by diluted weighted average number of shares outstanding.

- 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. The definition of free cash flow was changed in the first quarter of fiscal 2020 to include the impact of net lease cash payments made. 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.

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

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

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 August 3, 2019, May 4, 2019 and August 4, 2018, respectively:

($ in millions)	**August 3, 2019**	May 4, 2019	August 4, 2018
Long-term debt due within one year	**$ 29.5**	$ 36.5	$ 527.1
Long-term debt	**1,947.4**	1,984.4	1,118.3
Lease liabilities due within one year	**461.6**	-	-
Long-term lease liabilities	**4,482.8**	-	-
Funded debt	**6,921.3**	2,020.9	1,645.4
Less: cash and cash equivalents	**(694.7)**	(553.3)	(678.4)
Net funded debt	**6,226.6**	1,467.6	967.0
Total shareholders' equity, net of non-controlling interest	**3,623.2**	4,003.3	3,776.4
Net total capital	**$ 9,849.8**	$ 5,470.9	$ 4,743.4

Food Segment Reconciliations

The following tables adjust Sobeys' contributed operating income and net earnings, net of non-controlling interest, for certain items to better analyze trends in performance. These adjustments result in a more comparable economic representation.

($ in millions)	13 Weeks Ended **August 3, 2019**	13 Weeks Ended August 4, 2018	$ Change
Operating income	**$ 254.4**	$ 152.4	$ 102.0
Adjustments:			
Intangible amortization associated with the Canada Safeway acquisition	**4.5**	6.3	
	4.5	6.3	(1.8)
Adjusted operating income	**$ 258.9**	$ 158.7	$ 100.2

($ in millions)	13 Weeks Ended **August 3, 2019**	13 Weeks Ended August 4, 2018	$ Change
Net earnings	**$ 122.2**	$ 80.7	$ 41.5
Adjustments (net of income taxes):			
Intangible amortization associated with the Canada Safeway acquisition	**3.3**	4.6	
	3.3	4.6	(1.3)
Adjusted net earnings	**$ 125.5**	$ 85.3	$ 40.2

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. The current year same-store sales growth metrics reflect the acquisition of Farm Boy.
- 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.
- 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 adjusted EBITDA ratio is funded debt divided by trailing four-quarter adjusted 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 adjusted EBITDA generated.
- Adjusted EBITDA to interest expense ratio is trailing four-quarter adjusted 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 adjusted 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 August 3, 2019, May 4, 2019 and August 4, 2018:

($ in millions, except per share information)	**August 3, 2019**	May 4, 2019	August 4, 2018
Shareholders' equity, net of non-controlling interest	**$ 3,623.2**	$ 4,003.3	$ 3,776.4
Shares outstanding (basic)	**271.8**	271.9	271.8
Book value per common share	**$ 13.33**	$ 14.72	$ 13.89

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

Approved by Board of Directors: September 11, 2019
Stellarton, Nova Scotia, Canada