

EMPIRE

COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE 13 AND 52 WEEKS ENDED MAY 4, 2019

Forward-Looking Information	1
Overview of the Business	3
Food Retailing	3
Investments and Other Operations.....	5
Summary Results – Fourth Quarter	6
Sales	6
Gross Profit	7
Operating Income	7
EBITDA	7
Finance Costs	7
Income Taxes.....	8
Net Earnings.....	8
Operating Results – Full Year	9
Sales	9
Gross Profit	10
Operating Income	10
EBITDA	10
Finance Costs	11
Income Taxes.....	11
Net Earnings.....	11
Financial Performance by Segment	12
Food Retailing	12
Investments and Other Operations.....	12
Quarterly Results of Operations	13
Liquidity and Capital Resources	14
Operating Activities	14
Investing Activities.....	14
Financing Activities.....	15
Free Cash Flow	16
Employee Future Benefit Obligations	16
Guarantees and Commitments.....	16
Consolidated Financial Condition	17
Key Financial Condition Measures	17
Shareholders' Equity	18
Accounting Standards and Policies	19
Changes to Accounting Standards Adopted During Fiscal 2019	19
Future Standards.....	22
Critical Accounting Estimates	25
Disclosure Controls and Procedures	27
Internal Control Over Financial Reporting	27
Related Party Transactions	28
Key Management Personnel Compensation	28
Indemnities	29
Contingencies	29
Risk Management	29
Designation for Eligible Dividends	36
Non-GAAP Financial Measures & Financial Metrics	36
Financial Measures	36
Food Segment Reconciliations.....	38
Financial Metrics	39

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 and 52 weeks ended May 4, 2019 compared to the 13 and 52 weeks ended May 5, 2018. The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the 52 weeks ended May 4, 2019, and the 52 weeks ended May 5, 2018. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

The audited consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars ("CAD"). These consolidated financial statements include the accounts of Empire and its subsidiaries and structured entities which the Company is required to consolidate. The information contained in this MD&A is current to June 26, 2019, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

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

- The Company's expectations regarding the impact of Project Sunrise, including expected cost savings and efficiencies resulting from this transformation initiative, 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";
- The FreshCo expansion in Western Canada, 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 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 overall 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 which may be impacted by market and economic conditions, availability of sellers, changes in laws and regulations, and the results of operations;
- The Company's estimates regarding future capital expenditures which includes acquisitions of property, equipment and investment properties as well as additions to intangibles, 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.

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 \$25.1 billion in annual sales and \$9.6 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 123,000 people.

Food Retailing

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

Strategic Focus⁽¹⁾

The Company has established a solid foundation and is putting in place the strategic building blocks 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 comprehensive three-year transformation intended to simplify the organizational structure and reduce costs. The transformation was expected to yield \$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 and strategic sourcing cost reductions and improvements in store operations. In fiscal 2019, the Company realized a further \$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, putting the Company ahead of 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 in the early fall, 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. During fiscal 2019, the new branding, décor packages and taglines were finalized for the Sobeys banner, and during fiscal 2020, any required 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 for management. Through category resets, a key element of Project Sunrise, the Company has assessed all product categories nationally to ensure the stores have the items customers want most. Category resets are well underway in the 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 during fiscal 2019 and expects this momentum to continue in fiscal 2020, and result in further improvements to customer experience in the stores through improved execution, 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

The discount channel continues to be a growth area in food retailing. 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 over the next five years. The first five Western Canada FreshCo stores opened in spring 2019 – three in British Columbia (“B.C.”) and two in Manitoba. An additional 13 stores are expected to open in B.C. throughout fiscal 2020.

(v) Win E-commerce

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. 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 on track 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 Crombie REIT will build the site to Empire’s specifications.

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 the 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.

Labour Buyouts

On January 29, 2019, the Company implemented a labour decision provided by a Special Officer appointed by the Government in B.C. The labour decision set terms that allow the Company to offer voluntary buyouts to B.C. Safeway employees. Employee buyouts provide flexibility and stability for the Company to better manage labour and operational costs. As a result, the Company expensed \$35 million in the third quarter of fiscal 2019 related to the cost of employee buyouts through selling and administrative expenses.

Investments and Other Operations

Empire's Investments and other operations segment, as of May 4, 2019, included:

1. A 41.5% (41.5% fully diluted) equity accounted interest in Crombie REIT, an Ontario registered, unincorporated, open-ended real estate investment trust. Crombie REIT is one of the country's leading national retail property landlords with a strategy to own, operate and develop a portfolio of high quality grocery and drug store anchored shopping centres, freestanding stores and mixed use developments primarily in Canada's top urban and suburban markets; and
2. A 40.7% equity accounted interest in Genstar Development Partnership, a 48.6% equity accounted interest in Genstar Development Partnership II, a 39.0% equity accounted interest in GDC Investments 4, L.P., a 42.1% equity accounted interest in GDC Investments 6, L.P., a 39.0% equity accounted interest in GDC Investments 7, L.P., a 37.1% equity accounted interest in GDC Investments 8, L.P., and a 49.0% equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States.

SUMMARY RESULTS – FOURTH QUARTER

(\$ in millions, except per share amounts)	13 Weeks Ended		\$	%
	May 4, 2019	May 5, 2018		
Sales	\$ 6,220.4	\$ 5,886.1	\$ 334.3	5.7%
Gross profit ⁽¹⁾	1,577.5	1,451.3	126.2	8.7%
Operating income	194.2	110.6	83.6	75.6%
Adjusted operating income ⁽¹⁾	200.3	139.7	60.6	43.4%
EBITDA ⁽¹⁾	300.1	217.8	82.3	37.8%
Adjusted EBITDA ⁽¹⁾	300.1	240.4	59.7	24.8%
Finance costs, net	21.2	25.4	(4.2)	(16.5)%
Income tax expense	44.1	11.7	32.4	276.9%
Non-controlling interest	6.8	2.5	4.3	172.0%
Net earnings ⁽²⁾	122.1	71.0	51.1	72.0%
Adjusted net earnings ⁽¹⁾⁽²⁾	126.5	93.0	33.5	36.0%

Basic earnings per share

Net earnings ⁽²⁾	\$ 0.45	\$ 0.26
Adjusted net earnings ⁽²⁾	\$ 0.47	\$ 0.35
Basic weighted average number of shares outstanding (in millions)	271.9	271.8

Diluted earnings per share

Net earnings ⁽²⁾	\$ 0.45	\$ 0.26
Adjusted net earnings ⁽²⁾	\$ 0.46	\$ 0.35
Diluted weighted average number of shares outstanding (in millions)	272.8	272.2
Dividend per share	\$ 0.1100	\$ 0.1050

Consolidated operating results as a % of sales	13 Weeks Ended	
	May 4, 2019	May 5, 2018
Gross margin ⁽¹⁾	25.4%	24.7%
Adjusted operating income	3.2%	2.4%
EBITDA	4.8%	3.7%
Adjusted EBITDA	4.8%	4.1%
Adjusted net earnings ⁽²⁾	2.0%	1.6%

	13 Weeks Ended	
	May 4, 2019 ⁽³⁾	May 5, 2018
Same-store sales ⁽¹⁾ growth	3.2%	0.5%
Same-store sales growth, excluding fuel	3.8%	0.0%
Same-store sales growth, excluding fuel and pharmacy	4.2%	0.3%
Effective income tax rate	25.5%	13.7%

(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.

Empire Company Limited Consolidated Operating Results

Empire's results for the fourth quarter ended May 4, 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 5.7% driven by stronger performance across the business and the incorporation of Farm Boy results. Internal food inflation was positive and tonnage increased for the fourth consecutive quarter, the highest in almost nine years. These increases were partially offset by store closures in Western Canada, the deflationary impact of healthcare reform on pharmacy sales and lower fuel prices.

Gross Profit

Gross profit for the quarter increased by 8.7% primarily as a result of higher sales, the incorporation of Farm Boy results and category reset benefits. This was partially offset by store closures in Western Canada and lower margins in the Company's pharmacy business. Gross margin for the quarter increased to 25.4% from 24.7% last year as a result of category reset benefits and positive margin rate contributions from the inclusion of Farm Boy results.

Operating Income

(\$ in millions)	13 Weeks Ended		\$ Change
	May 4, 2019	May 5, 2018	
Consolidated operating income:			
Food retailing	\$ 164.0	\$ 95.2	\$ 68.8
Investments and other operations:			
Crombie REIT	22.9	10.8	12.1
Genstar	1.5	3.3	(1.8)
Other operations, net of corporate expenses	5.8	1.3	4.5
	30.2	15.4	14.8
Operating income	\$ 194.2	\$ 110.6	\$ 83.6
Adjustments:			
Intangible amortization associated with the Canada Safeway acquisition	\$ 6.1	\$ 6.5	
Costs related to Project Sunrise	-	22.3	
Western Canada store closures	-	0.3	
	6.1	29.1	(23.0)
Adjusted operating income	\$ 200.3	\$ 139.7	\$ 60.6

For the quarter ended May 4, 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, higher store and back office incentive compensation accruals and increased marketing costs. Higher retail labour due to increased sales volume also increased selling and administrative expenses year-over-year. These increases to selling and administrative expenses were partially offset by savings achieved by Project Sunrise.

Operating income from the Investments and other operations segment increased due to the sale of a 26 property portfolio by Crombie REIT, the related gain which resulted in an increase of \$8.4 million recognized by the Company as a share of equity earnings from Crombie REIT and \$6.4 million in Other operations, reflecting reversal of previously deferred gains on disposal on properties previously sold to Crombie REIT.

EBITDA

EBITDA increased in the fourth quarter mainly as a result of the same factors affecting operating income.

(\$ in millions)	13 Weeks Ended		\$ Change
	May 4, 2019	May 5, 2018	
EBITDA	\$ 300.1	\$ 217.8	\$ 82.3
Adjustments:			
Costs related to Project Sunrise	-	22.3	
Western Canada store closures	-	0.3	
	-	22.6	(22.6)
Adjusted EBITDA	\$ 300.1	\$ 240.4	\$ 59.7

Finance Costs

For the fourth quarter ended May 4, 2019, net finance costs decreased due to increases in interest income as operating cash flows increased, and a decrease in accretion expense on provisions. This decrease was partially offset by interest on a new \$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 fourth quarter ended May 4, 2019 was 25.5% compared to 13.7% in the same quarter last year. The current quarter effective tax rate was lower than the statutory rate primarily due to capital gains on property dispositions, including the tax impact of the disposition of a 26 property portfolio by Crombie REIT and differing tax rates of various entities. The prior period's effective rate was lower than the statutory rate due to an internal reorganization that the Company undertook to simplify its corporate structure.

Net Earnings

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

(\$ in millions, except per share amounts)	13 Weeks Ended		\$ Change
	May 4, 2019	May 5, 2018	
Net earnings ⁽¹⁾	\$ 122.1	\$ 71.0	\$ 51.1
EPS ⁽²⁾ (fully diluted)	\$ 0.45	\$ 0.26	
Adjustments (net of income taxes):			
Intangible amortization associated with the Canada Safeway acquisition	4.4	4.8	
Costs related to Project Sunrise	-	17.0	
Western Canada store closures	-	0.2	
	4.4	22.0	(17.6)
Adjusted net earnings ⁽¹⁾	\$ 126.5	\$ 93.0	\$ 33.5
Adjusted EPS ⁽³⁾ (fully diluted)	\$ 0.46	\$ 0.35	
Diluted weighted average number of shares outstanding (in millions)	272.8	272.2	

(1) Net of non-controlling interest.

(2) Earnings per share ("EPS").

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

OPERATING RESULTS – FULL YEAR

(\$ in millions, except per share amounts)	52 Weeks Ended	52 Weeks Ended	52 Weeks Ended	2019 Compared to 2018	
	May 4, 2019	May 5, 2018	May 6, 2017	\$ Change	% Change
Sales	\$ 25,142.0	\$ 24,214.6	\$ 23,806.2	\$ 927.4	3.8%
Gross profit	6,083.6	5,900.5	5,707.2	183.1	3.1%
Operating income	652.3	346.5	333.0	305.8	88.3%
Adjusted operating income	683.6	601.7	378.5	81.9	13.6%
EBITDA	1,069.5	785.7	777.2	283.8	36.1%
Adjusted EBITDA	1,076.2	1,014.7	796.9	61.5	6.1%
Finance costs, net	91.6	110.5	118.0	(18.9)	(17.1)%
Income tax expense	144.3	56.2	42.5	88.1	156.8%
Non-controlling interest	29.1	20.3	14.0	8.8	43.3%
Net earnings ⁽¹⁾	387.3	159.5	158.5	227.8	142.8%
Adjusted net earnings ⁽¹⁾	410.0	344.3	191.3	65.7	19.1%

Basic earnings per share

Net earnings ⁽¹⁾	\$ 1.42	\$ 0.59	\$ 0.58
Adjusted net earnings ⁽¹⁾	\$ 1.51	\$ 1.27	\$ 0.70
Basic weighted average number of shares outstanding (in millions)	271.9	271.8	271.9

Diluted earnings per share

Net earnings ⁽¹⁾	\$ 1.42	\$ 0.59	\$ 0.58
Adjusted net earnings ⁽¹⁾	\$ 1.50	\$ 1.27	\$ 0.70
Diluted weighted average number of shares outstanding (in millions)	272.6	272.1	272.0
Dividend per share	\$ 0.44	\$ 0.42	\$ 0.41

Consolidated operating results as a % of sales	52 Weeks Ended May 4, 2019	52 Weeks Ended May 5, 2018	52 Weeks Ended May 6, 2017
Gross margin	24.2%	24.4%	24.0%
Adjusted operating income	2.7%	2.5%	1.6%
EBITDA	4.3%	3.2%	3.3%
Adjusted EBITDA	4.3%	4.2%	3.3%
Adjusted net earnings ⁽¹⁾	1.6%	1.4%	0.8%

	52 Weeks Ended May 4, 2019 ⁽²⁾	52 Weeks Ended May 5, 2018	52 Weeks Ended May 6, 2017
Same-store sales growth (decline)	2.8%	0.8%	(2.1)%
Same-store sales growth (decline), excluding fuel	2.7%	0.5%	(2.2)%
Same-store sales growth (decline), excluding fuel and pharmacy	3.2%	0.7%	(2.4)%
Effective income tax rate	25.7%	23.8%	19.8%

(1) Net of non-controlling interest.

(2) In the current year, same-store sales growth metrics reflect the Farm Boy acquisition.

Empire Company Limited Consolidated Operating Results

Empire's results for the fiscal year ended May 4, 2019 include Farm Boy operations as of December 10, 2018. All metrics, including same-store sales, include the consolidation of Farm Boy operations.

Sales

Sales for the fiscal year ended May 4, 2019 increased by 3.8% driven by stronger performance across the business, the incorporation of Farm Boy results and increased fuel prices. These increases were partially offset by the effects of store closures in Western Canada and the deflationary impact of healthcare reform.

Gross Profit

Gross profit for the fiscal year ended May 4, 2019 increased by 3.1% primarily as a result of the increase in sales, the incorporation of Farm Boy results and category reset benefits. This was partially offset by store closures in Western Canada and lower margins in the Company's pharmacy business due to the deflationary impact of healthcare reform. Gross margin decreased to 24.2% compared to 24.4% in the prior year as a result of lower margin fuel sales increases and the effect of sales mix between banners.

Operating Income

(\$ in millions)	52 Weeks Ended		\$ Change
	May 4, 2019	May 5, 2018	
Consolidated operating income:			
Food retailing	\$ 561.8	\$ 273.6	\$ 288.2
Investments and other operations:			
Crombie REIT	63.6	39.5	24.1
Genstar	23.4	33.9	(10.5)
Other operations, net of corporate expenses	3.5	(0.5)	4.0
	90.5	72.9	17.6
Operating income	\$ 652.3	\$ 346.5	\$ 305.8
Adjustments:			
Intangible amortization associated with the Canada Safeway acquisition	\$ 24.6	\$ 26.2	
Business acquisition costs	6.7	-	
Costs related to Project Sunrise	-	207.8	
Western Canada store closures	-	21.2	
	31.3	255.2	(223.9)
Adjusted operating income	\$ 683.6	\$ 601.7	\$ 81.9

Operating income from the food retailing segment increased for the fiscal year ended May 4, 2019 primarily as a result of improvements in sales and margins, and lower selling and administrative expenses. Selling and administrative expenses were lower due to higher costs incurred related to Project Sunrise in the prior year, the positive impact of Project Sunrise benefits achieved in the current year, reversal of previously impaired assets in Western Canada, lower incentive compensation accruals, and a decrease in depreciation expense. These positive impacts were partially offset by increases in minimum wage rates, the inclusion of Farm Boy results and related acquisition costs, costs of voluntary buyouts of eligible B.C. Safeway employees and the costs associated with the closure and conversion of stores as part of the ongoing expansion of the FreshCo discount format into Western Canada.

Operating income from the Investments and other operations segment also increased for the fiscal year ended May 4, 2019 mainly as a result of the sale of a 26 property portfolio by Crombie REIT offset by lower equity earnings from real estate partnerships, as subsequently discussed in the "Investment and Other Operations" section.

EBITDA

EBITDA increased for the fiscal year ended May 4, 2019 mainly as a result of the same factors affecting operating income with the exception of the decrease in depreciation expense.

(\$ in millions)	52 Weeks Ended		\$ Change
	May 4, 2019	May 5, 2018	
EBITDA	\$ 1,069.5	\$ 785.7	\$ 283.8
Adjustments:			
Business acquisition costs	6.7	-	
Costs related to Project Sunrise	-	207.8	
Western Canada store closures	-	21.2	
	6.7	229.0	(222.3)
Adjusted EBITDA	\$ 1,076.2	\$ 1,014.7	\$ 61.5

Finance Costs

For the fiscal year ended May 4, 2019, net finance costs decreased primarily due to a decrease in interest expense and an increase in interest income from cash and cash equivalents as operating cash flow increased, and higher coupon debt was paid down. Interest expense decreased due to i) the repayment of \$500.0 million Series 2013-1 Notes utilizing Sobeys' credit facility that carries a lower interest rate, and ii) the repayment of \$100.0 million Series C Medium term notes during the fourth quarter of fiscal 2018. This decrease in interest expense was partially offset by interest on a new \$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 fiscal year ended May 4, 2019 increased to 25.7% compared to 23.8% in the prior year. The current year effective rate was lower than the statutory rate primarily due to capital gains on property dispositions, including the tax impact of the disposition of a 26 property portfolio by Crombie REIT, and a decrease in tax liabilities related to unrecognized tax benefits. The prior period's effective rate was lower than the statutory rate due to an internal reorganization that the Company undertook to simplify its corporate structure.

Net Earnings

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

(\$ in millions, except per share amounts)	52 Weeks Ended		\$ Change
	May 4, 2019	May 5, 2018	
Net earnings ⁽¹⁾	\$ 387.3	\$ 159.5	\$ 227.8
EPS (fully diluted)	\$ 1.42	\$ 0.59	
Adjustments (net of income taxes):			
Intangible amortization associated with the Canada Safeway acquisition	17.8	19.2	
Business acquisition costs	4.9	-	
Costs related to Project Sunrise	-	150.1	
Western Canada store closures	-	15.5	
	22.7	184.8	(162.1)
Adjusted net earnings ⁽¹⁾	\$ 410.0	\$ 344.3	\$ 65.7
Adjusted EPS (fully diluted)	\$ 1.50	\$ 1.27	
Diluted weighted average number of shares outstanding (in millions)	272.6	272.1	

(1) Net of non-controlling interest.

FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

The following is a review of Empire's Food retailing segment's financial performance, comprising the consolidated results of Sobeys Inc. for the fiscal years ended May 4, 2019, May 5, 2018 and May 6, 2017.

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

(\$ in millions)	52 Weeks Ended	52 Weeks Ended	52 Weeks Ended	2019 Compared to 2018	
	May 4, 2019	May 5, 2018	May 6, 2017	\$ Change	% Change
Sales	\$ 25,142.0	\$ 24,214.6	\$ 23,806.2	\$ 927.4	3.8%
Gross profit	6,083.6	5,900.5	5,707.2	183.1	3.1%
Operating income	561.8	273.6	259.3	288.2	105.3%
Adjusted operating income	593.1	528.8	304.8	64.3	12.2%
EBITDA	978.7	712.5	703.2	266.2	37.4%
Adjusted EBITDA	985.4	941.5	722.9	43.9	4.7%
Net earnings ⁽¹⁾	316.5	116.5	112.7	200.0	171.7%
Adjusted net earnings ⁽¹⁾	339.2	301.3	145.5	37.9	12.6%

(1) Net of non-controlling interest.

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

(\$ in millions)	52 Weeks Ended May 4, 2019 ⁽¹⁾	52 Weeks Ended May 5, 2018 ⁽²⁾	52 Weeks Ended May 6, 2017
Sales growth (decline)	3.8%	1.7%	(3.3)%
Same-store sales growth (decline)	2.8%	0.8%	(2.1)%
Same-store sales growth (decline), excluding fuel	2.7%	0.5%	(2.2)%
Same-store sales growth (decline), excluding fuel and pharmacy	3.2%	0.7%	(2.4)%
Return on equity ⁽³⁾	11.6%	5.4%	4.9%
Funded debt to total capital ⁽³⁾	40.2%	37.0%	39.5%
Funded debt to adjusted EBITDA ⁽³⁾	2.1x	1.7x	2.4x
Acquisitions of property, equipment, investment property and intangibles ⁽⁴⁾	\$434.6	\$287.8	\$524.6

(1) In the current year, same-store sales growth metrics reflect the Farm Boy acquisition.

(2) Some amounts have been adjusted as a result of the adoption of IFRS 9 on a retrospective basis. See "Accounting Standards and Policies" section for more details.

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

(4) This amount reflects acquisitions of property, equipment, investment property and intangibles by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

Investments and Other Operations

(\$ in millions)	52 Weeks Ended		\$ Change
	May 4, 2019	May 5, 2018	
Crombie REIT	\$ 63.6	\$ 39.5	\$ 24.1
Genstar	23.4	33.9	(10.5)
Other operations, net of corporate expenses	3.5	(0.5)	4.0
	\$ 90.5	\$ 72.9	\$ 17.6

For the fiscal year ended May 4, 2019, income from investments and other operations increased as a result of increased equity earnings from Crombie REIT due to higher gains on disposal of investment properties compared to the prior year, specifically the sale of a 26 property portfolio in the fourth quarter that contributed an additional \$8.4 million to the Company's equity earnings. This was partially offset by lower residential lot sales in Western Canada and a prior year bulk sale of development property in the U.S. that did not reoccur.

Investment Portfolio

At May 4, 2019, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

(\$ in millions)	May 4, 2019			May 5, 2018		
	Fair Value	Carrying Value	Unrealized Gain	Fair Value	Carrying Value	Unrealized Gain
Investment in associates						
Crombie REIT ⁽¹⁾	\$ 904.7	\$ 466.5	\$ 438.2	\$ 777.1	\$ 448.5	\$ 328.6
Genstar Canadian real estate partnerships ⁽²⁾	94.6	94.6	-	90.7	90.7	-
Genstar U.S. real estate partnerships ⁽²⁾	20.3	20.3	-	23.2	23.2	-
Investment in joint ventures⁽²⁾	8.0	8.0	-	9.4	9.4	-
	\$ 1,027.6	\$ 589.4	\$ 438.2	\$ 900.4	\$ 571.8	\$ 328.6

(1) Fair value is calculated based on the closing price of Crombie REIT units traded on the Toronto Stock Exchange as of May 3, 2019.

(2) Assumes fair value equals carrying value.

QUARTERLY RESULTS OF OPERATIONS

(\$ in millions, except per share amounts)	Fiscal 2019				Fiscal 2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(13 Weeks) May 4, 2019	(13 Weeks) Feb. 2, 2019	(13 Weeks) Nov. 3, 2018	(13 Weeks) Aug. 4, 2018	(13 Weeks) May 5, 2018	(13 Weeks) Feb. 3, 2018	(13 Weeks) Nov. 4, 2017	(13 Weeks) Aug. 5, 2017
Sales	\$ 6,220.4	\$ 6,247.3	\$ 6,214.0	\$ 6,460.3	\$ 5,886.1	\$ 6,029.2	\$ 6,026.1	\$ 6,273.2
Operating income	194.2	110.0	173.4	174.7	110.6	108.1	2.6	125.2
EBITDA ⁽¹⁾	300.1	214.6	276.1	278.7	217.8	216.1	113.0	238.8
Net earnings (loss) ⁽²⁾	122.1	65.8	103.8	95.6	71.0	58.1	(23.6)	54.0
Per share information, basic								
Net earnings (loss) ⁽²⁾⁽³⁾	\$ 0.45	\$ 0.24	\$ 0.38	\$ 0.35	\$ 0.26	\$ 0.21	\$ (0.09)	\$ 0.20
Basic weighted average number of shares outstanding (in millions)	271.9	271.9	271.8	271.8	271.8	271.7	271.8	271.5
Per share information, diluted								
Net earnings (loss) ⁽²⁾⁽³⁾	\$ 0.45	\$ 0.24	\$ 0.38	\$ 0.35	\$ 0.26	\$ 0.21	\$ (0.09)	\$ 0.20
Diluted weighted average number of shares outstanding (in millions)	272.8	272.5	272.2	272.3	272.2	272.2	271.8	271.6

(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 most recent eight quarters, results have fluctuated overall with sales consistently improving compared to the same period in the prior year. Beginning on December 10, 2018, the Company's results incorporate the results of Farm Boy.

Sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. 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 and net earnings (loss), net of non-controlling interest, 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.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights significant cash flow components for the relevant periods. For additional detail, please refer to the consolidated statements of cash flows in the Company's consolidated financial statements for the fiscal year ended May 4, 2019.

(\$ in millions)	13 Weeks Ended			52 Weeks Ended		
	May 4, 2019	May 5, 2018	Change	May 4, 2019	May 5, 2018	Change
Cash flows from operating activities	\$ 373.8	\$ 313.5	\$ 60.3	\$ 885.6	\$ 879.7	\$ 5.9
Cash flows (used in) from investing activities	(182.2)	33.1	(215.3)	(1,094.0)	(39.4)	(1,054.6)
Cash flows (used in) from financing activities	(65.1)	(176.8)	111.7	133.8	(419.7)	553.5
Increase (decrease) in cash and cash equivalents	\$ 126.5	\$ 169.8	\$ (43.3)	\$ (74.6)	\$ 420.6	\$ (495.2)

Operating Activities

Cash flows from operating activities for the fourth quarter increased as a result of higher cash flows from earnings and an increase in non-cash working capital. This increase was partially offset by higher distributions in the prior year from Genstar real estate partnerships.

Cash flows from operating activities for the fiscal year increased as a result of higher cash flows from earnings. This increase was partially offset by higher distributions in the prior year from Genstar real estate partnerships, a decrease in non-cash working capital, and the drawdown of restructuring provisions due to Project Sunrise and store closures in Western Canada.

Investing Activities

The table below outlines details of investing activities of the Company for the 13 and 52 weeks ended May 4, 2019 compared to the 13 and 52 weeks ended May 5, 2018:

(\$ in millions)	13 Weeks Ended			52 Weeks Ended		
	May 4, 2019	May 5, 2018	Change	May 4, 2019	May 5, 2018	Change
Acquisitions of property, equipment, investment property and intangibles	\$ (227.1)	\$ (84.0)	\$ (143.1)	\$ (434.6)	\$ (288.0)	\$ (146.6)
Proceeds on disposal of assets	28.9	113.2	(84.3)	89.7	217.2	(127.5)
Loans and other receivables	6.0	(0.4)	6.4	12.0	6.1	5.9
Other assets and other long-term liabilities	6.9	3.7	3.2	9.2	2.9	6.3
Business acquisitions, net of cash acquired	(0.8)	(0.6)	(0.2)	(778.6)	(3.8)	(774.8)
Interest received	3.9	1.2	2.7	8.3	1.9	6.4
Proceeds on redemption of investment	-	-	-	-	24.3	(24.3)
Cash flows (used in) from investing activities	\$ (182.2)	\$ 33.1	\$ (215.3)	\$ (1,094.0)	\$ (39.4)	\$ (1,054.6)

Cash used in investing activities for the fourth quarter increased primarily as a result of an increase in capital spending and a decrease in proceeds on disposal of assets due to Sobeys entering into an agreement with Crombie REIT in the prior year to sell a portfolio of 11 properties that did not reoccur in the current year.

For the fiscal year ended May 4, 2019, cash used in investing activities increased primarily due to an increase in cash used in business acquisitions, including the acquisitions of Farm Boy and Kim Phat. The increase in cash used in investing activities was further impacted by increased capital spending and a decline in proceeds on disposal of real estate assets from the prior year as discussed above. Proceeds from the redemption of debentures held in Crombie REIT in the prior year of \$24.3 million also contributed to the negative cash flow trend year-over-year.

The Company invested \$434.6 million in capital expenditures in fiscal 2019. Excluding the impact of capital expenditures by companies acquired during the year, predominantly Farm Boy, the Company invested \$427.3 million which was in line with management's previously disclosed estimate of \$425.0 million. The Company expects to invest approximately \$600.0 million in its operations during fiscal 2020; this estimate includes capital estimates of 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 13 and 52 weeks ended May 4, 2019 compared to the 13 and 52 weeks ended May 5, 2018.

# of stores	13 Weeks Ended		52 Weeks Ended	
	May 4, 2019	May 5, 2018	May 4, 2019	May 5, 2018
Opened/relocated/acquired	11	9	37	41
Expanded	-	3	1	11
Rebanned/redeveloped	1	2	5	24
Closed	6	8	28	40
Opened - FreshCo ⁽¹⁾	3	-	3	-
Closed - converted or pending conversion to FreshCo ⁽¹⁾	-	-	7	-
Opened - Farm Boy	-	-	2	-
Acquired - Farm Boy	-	-	26	-

In fiscal 2020, it was announced an additional 11 Safeway stores will close and be converted to the FreshCo discount format.

The following table shows Sobeys' square footage changes for the quarter and fiscal year ended May 4, 2019 by type:

Square feet (in thousands)	13 Weeks Ended	52 Weeks Ended
	May 4, 2019	May 4, 2019
Opened	117	307
Relocated	31	95
Acquired	-	77
Expanded	-	14
Closed	(40)	(375)
Net change before the impact of the Farm Boy acquisition & FreshCo expansion	108	118
Opened - FreshCo ⁽¹⁾	(33)	(33)
Opened - Farm Boy	-	43
Acquired - Farm Boy	-	413
Net change with the impact of the Farm Boy acquisition & FreshCo expansion	75	541

(1) Specific to converted Western Canada FreshCo stores.

At May 4, 2019 Sobeys' square footage totaled 40.0 million, a 1.5% increase over 39.4 million square feet operated at May 5, 2018. Excluding the impact of Farm Boy, net store square footage increased by 0.3%.

Financing Activities

Cash used in financing activities for the fourth quarter decreased primarily due to repayment in the prior year of long-term debt, specifically the repayment of \$100.0 million Series C Medium term notes.

For the fiscal year ended May 4, 2019, cash from financing activities increased as a result of cash inflows from a new \$400.0 million senior, unsecured non-revolving credit facility to finance the acquisition of Farm Boy.

Free Cash Flow

Management uses free cash flow⁽¹⁾ as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities.

(\$ in millions)	13 Weeks Ended			52 Weeks Ended		
	May 4, 2019	May 5, 2018	Change	May 4, 2019	May 5, 2018	Change
Cash flows from operating activities	\$ 373.8	\$ 313.5	\$ 60.3	\$ 885.6	\$ 879.7	\$ 5.9
Add: proceeds on disposal of property, equipment and investment property	28.9	113.2	(84.3)	89.7	217.2	(127.5)
Less: acquisitions of property, equipment, investment property and intangibles	(227.1)	(84.0)	(143.1)	(434.6)	(288.0)	(146.6)
Free cash flow	\$ 175.6	\$ 342.7	\$ (167.1)	\$ 540.7	\$ 808.9	\$ (268.2)

Free cash flow decreased for the quarter and fiscal year ended May 4, 2019 primarily due to an increase in capital spending including renovations, construction of new stores, construction of an e-commerce fulfillment centre, the expansion of FreshCo into Western Canada as well as a decrease in proceeds on the sale of property. This was offset by improved cash flows from operations.

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

Employee Future Benefit Obligations

For the fiscal year ended May 4, 2019, the Company contributed \$19.5 million (2018 – \$9.3 million) to its registered defined benefit plans. The increase is a result of an actuarial valuation filed in the second quarter of fiscal 2019. The Company expects to contribute approximately \$12.1 million to these plans in fiscal 2020.

Guarantees and Commitments

The following table presents the Company's commitments and other obligations that will come due over the next five fiscal years as at May 4, 2019:

(\$ in millions)	2020	2021	2022	2023	2024	Thereafter	Total
Commitments							
Long-term debt ⁽¹⁾	\$ 30.0	\$ 908.7	\$ 7.2	\$ 6.4	\$ 505.9	\$ 538.0	\$ 1,996.2
Finance lease liabilities ⁽²⁾	6.5	4.2	2.7	1.7	1.5	12.5	29.1
Third-party operating leases, as lessee ⁽³⁾	286.6	267.8	243.8	214.9	189.0	1,204.5	2,406.6
Related party operating leases, as lessee ⁽³⁾	162.9	163.6	164.0	164.7	166.6	1,596.8	2,418.6
Contractual obligations	486.0	1,344.3	417.7	387.7	863.0	3,351.8	6,850.5
Operating leases, as lessor	(10.5)	(8.8)	(8.4)	(7.5)	(6.5)	(34.6)	(76.3)
Contractual obligations, net	\$ 475.5	\$ 1,335.5	\$ 409.3	\$ 380.2	\$ 856.5	\$ 3,317.2	\$ 6,774.2

(1) Principal debt repayments.

(2) Present value of minimum lease payments (future minimum lease payments less interest).

(3) Net of sub-lease income.

For further information on guarantees and commitments, please see Note 15 and Note 24 of the Company's audited annual consolidated financial statements for the fiscal year ended May 4, 2019.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

(\$ in millions, except per share and ratio calculations)	May 4, 2019 ⁽¹⁾	May 5, 2018	May 6, 2017
Shareholders' equity, net of non-controlling interest	\$ 4,003.3	\$ 3,702.8	\$ 3,644.2
Book value per common share ⁽²⁾	\$ 14.72	\$ 13.62	\$ 13.40
Long-term debt, including current portion	\$ 2,020.9	\$ 1,666.9	\$ 1,870.8
Funded debt to total capital	33.5%	31.0%	33.9%
Net funded debt to net total capital ⁽²⁾	26.8%	21.9%	31.3%
Funded debt to adjusted EBITDA	1.9x	1.6x	2.3x
Adjusted EBITDA to interest expense ⁽²⁾	12.4x	10.5x	7.7x
Current assets to current liabilities	1.0x	0.8x	0.9x
Total assets	\$ 9,602.4	\$ 8,662.0	\$ 8,695.5
Total non-current financial liabilities	\$ 2,838.1	\$ 1,929.9	\$ 2,502.1

(1) In the current year, Key Financial Condition Measures reflect the Farm Boy acquisition.

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

During fiscal 2019, Dominion Bond Rating Service ("DBRS") upgraded Sobeys' trend from stable to positive. Debt ratings assigned by the two rating agencies at the end of the fiscal year are:

Rating Agency	Credit Rating (Issuer rating)	Trend/Outlook
DBRS	BB (high)	Positive
Standard & Poor's ("S&P")	BB+	Stable

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 from 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 various sources of funds are diversified by term to maturity and source of credit.

For additional information on Empire's long-term debt, see Note 15 of the Company's audited annual consolidated financial statements for the fiscal year ended May 4, 2019.

Shareholders' Equity

The Company's share capital was comprised of the following on May 4, 2019:

	Number of Shares		
	May 4, 2019	May 5, 2018	
Authorized			
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	768,105,849	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	May 4, 2019	May 5, 2018
Non-Voting Class A shares	173,661,495	\$ 2,040.6	\$ 2,038.2
Class B common shares	98,138,079	7.3	7.3
Shares held in trust	(271,968)	(5.3)	(6.0)
Total		\$ 2,042.6	\$ 2,039.5

The Company's share capital on May 4, 2019 compared to the same period in the last fiscal year is shown in the table below:

(Number of Shares)	52 Weeks Ended	
	May 4, 2019	May 5, 2018
Non-Voting Class A shares		
Issued and outstanding, beginning of year	173,547,591	173,537,901
Issued during year	113,904	9,690
Issued and outstanding, end of year	173,661,495	173,547,591
Shares held in trust, beginning of year	(308,504)	(555,409)
Issued for future settlement of equity settled plans	40,313	252,588
Purchased for future settlement of equity settled plans	(3,777)	(5,683)
Shares held in trust, end of year	(271,968)	(308,504)
Issued and outstanding, net of shares held in trust, end of year	173,389,527	173,239,087
Class B common shares		
Issued and outstanding, beginning of year	98,138,079	98,138,079
Issued during year	-	-
Total issued and outstanding, end of year	98,138,079	98,138,079

The outstanding options at May 4, 2019 were granted at prices between \$15.60 and \$30.87 and expire between June 2021 and June 2026 with a weighted average remaining contractual life of 4.88 years. Stock option transactions during fiscal 2019 and 2018 were as follows:

	2019		2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	4,686,155	\$ 22.81	4,949,863	\$ 24.27
Granted	800,573	25.97	1,338,980	19.43
Exercised	(746,346)	22.30	(122,805)	22.26
Expired	(250,116)	27.49	(749,971)	25.92
Forfeited	(196,978)	20.63	(729,912)	23.45
Balance, end of year	4,293,288	\$ 23.31	4,686,155	\$ 22.81
Stock options exercisable, end of year	2,201,160		2,301,032	

For the fiscal year ended May 4, 2019, the Company paid common dividends of \$119.5 million (2018 – \$114.0 million) to its equity holders. This represents a payment of \$0.44 per share (2018 – \$0.42 per share) for common shareholders.

As at June 25, 2019, the Company had Non-Voting Class A and Class B common shares outstanding of 173,663,969 and 98,138,079, respectively. Options to acquire 4,293,288 Non-Voting Class A shares were outstanding as of May 4, 2019 (May 5, 2018 – 4,686,155). As at June 25, 2019, options to acquire 4,276,914 Non-Voting Class A shares were outstanding (June 26, 2018 – 4,659,355).

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

Shares held in trust	Number of Shares		May 4, 2019		May 5, 2018
Balance, beginning of year	(308,504)	\$	(6.0)	\$	(10.7)
Purchased	(3,777)		(0.1)		(0.1)
Issued	40,313		0.8		4.8
Balance, end of year	(271,968)	\$	(5.3)	\$	(6.0)

Normal Course Issuer Bid ("NCIB")

Subsequent to year end, on June 27, 2019 the Company filed a notice of intention with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 3.5 million Non-Voting Class A shares representing approximately 2.0% of those outstanding, subject to obtaining regulatory approval. The purchases will be made through the facilities of the TSX and/or any alternative trading systems, to the extent they are eligible. The price that Empire will pay for any such shares will be the market price at the time of acquisition. Purchases may commence on July 2, 2019, and shall terminate not later than July 1, 2020. A copy of the notice of intention may be obtained without charge by contacting the Company at investor.relations@empireco.ca.

The Board of Directors and senior management of Empire are of the opinion that from time to time the purchase of Non-Voting Class A shares at the prevailing market prices is a worthwhile use of funds and in the best interests of Empire and its shareholders. Empire acquired none of its Non-Voting Class A shares in the past 12 months under normal course issuer bids.

The average daily trading volume (the "ADTV") of the Non-Voting Class A shares was 554,024 on the TSX over the last six completed calendar months. Accordingly, under the policies of the TSX, Empire is entitled to purchase, during any one trading day up to 138,506 Non-Voting Class A shares (being 25% of the ADTV of the Non-Voting Class A shares). Empire is entitled to purchase a larger amount of Non-Voting Class A shares per calendar week, subject to the maximum number that may be acquired under the normal course issuer bid, if the transaction meets the block purchase exception under the TSX rules.

ACCOUNTING STANDARDS AND POLICIES

The audited 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 5, 2018 with the exception of the following:

Changes to Accounting Standards Adopted During Fiscal 2019

(i) Revenue

The Company adopted IFRS 15 "Revenue from contracts with customers" ("IFRS 15") effective in the first quarter of fiscal 2019. IFRS 15 was issued in May 2014 and replaces International Accounting Standard ("IAS") 18 "Revenue", IAS 11 "Construction contracts", and related interpretations. IFRS 15 became effective for annual periods beginning on or after January 1, 2018.

IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive five-step framework for recognition, measurement, and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts, and financial instruments. The Company has adopted the standard retrospectively, in accordance with IFRS 15 transitional provisions. The implementation of IFRS 15 did not materially impact the amounts recognized on the Company's consolidated financial statements and no amounts have been reclassified or restated.

The Company has amended its accounting policies related to revenue recognition and revised the definition of sales as follows:

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

(ii) Financial Instruments

The Company adopted IFRS 9 which replaces the provisions of IAS 39 “Financial instruments: recognition and measurement” (“IAS 39”), and related amendments to IFRS 7 “Financial instruments: disclosures” (“IFRS 7”) effective in the first quarter of fiscal 2019, on a retrospective basis. IFRS 9 became effective for annual periods beginning on or after January 1, 2018.

The IAS 39 requirements for the classification and measurement of financial assets and financial liabilities, and impairment of financial assets have been amended by IFRS 9. IFRS 9 also introduces a new hedge accounting model and a change in accounting for debt modifications.

Classification and Measurement

IFRS 9 requires financial assets to be classified and measured based on both the business model for managing the asset, and the nature of the cash flows. The classification and measurement categories for financial assets are amortized cost, fair value through other comprehensive income (“FVOCI”), and fair value through profit or loss (“FVTPL”). The classification and measurement categories for financial liabilities are amortized cost and FVTPL. The impacts on financial assets and liabilities upon adoption of IFRS 9 are outlined below:

Asset/Liability	IAS 39 Classification	IAS 39 Measurement	IFRS 9 Classification and Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost	Amortized cost
Receivables	Loans and receivables	Amortized cost	Amortized cost
Loans and other receivables	Loans and receivables	Amortized cost	Amortized cost
Derivative financial assets and liabilities	FVTPL	Fair value	FVTPL
Non-derivative other assets	FVTPL	Fair value	FVTPL
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	Amortized cost
Long-term debt	Other liabilities	Amortized cost	Amortized cost

The changes in classification and measurement did not result in changes to the carrying amounts of the Company’s financial instruments on adoption of IFRS 9.

The Company has amended its accounting policies for the classification and measurement of financial instruments as follows:

Financial assets that are not designated as FVTPL on initial recognition are classified and measured at amortized cost if (i) they are held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

Debt investments that are not designated as FVTPL on initial recognition are classified and measured at FVOCI if (i) they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Equity investments held for trading are classified and measured at FVTPL.

Financial assets not classified at amortized cost or FVOCI are classified and measured at FVTPL.

The measurement of financial liabilities remains largely unchanged from IAS 39.

Impairment

IFRS 9 introduces a new expected credit loss (“ECL”) impairment model for financial assets measured at amortized cost or FVOCI, except for equity investments. The ECL impairment model replaces the incurred loss model under IAS 39. It is no longer necessary for a triggering event to have occurred before credit losses are recognized.

Under the IFRS 9 ECL impairment model, loss allowances are measured based on (i) ECLs that result from possible default events within the 12 months after the reporting date (“12-month ECL”), or (ii) ECLs that result from all possible default events over the expected life of a financial instrument (“lifetime ECLs”).

The adoption of the ECL impairment model did not have a quantitative impact on the Company’s consolidated financial statements.

The Company has amended its accounting policies for the impairment of financial instruments as follows:

The Company recognizes loss allowances on its trade receivables based on lifetime ECLs. Loss allowances are recognized on loans and other receivables for which the credit risk has not increased significantly since initial recognition based on the 12-month ECL. Where there is a significant increase in the credit risk of loans and other receivables subsequent to initial recognition, the Company recognizes loss allowances based on lifetime ECLs.

The Company considers past events, current conditions, and reasonable and supportable forecasts affecting collectability when determining whether the credit risk of a financial asset has increased significantly since initial recognition, or in estimating lifetime ECLs.

Hedge Accounting

IFRS 9 introduces a new hedge accounting model that aligns hedge accounting relationships with corresponding risk management activities. The new hedge accounting requirements did not result in an adjustment to the Company’s consolidated financial statements.

Modification of Financial Liabilities

In October 2017, the IASB issued “Prepayment features with negative compensation” as an amendment to IFRS 9. The amendment clarifies the accounting treatment for modifications of financial liabilities and requires a financial liability measured at amortized cost to be remeasured when a modification occurs. Any resulting gain or loss is required to be recognized in profit or loss at the date of modification. The amendment became effective for annual periods beginning on or after January 1, 2018. The Company adopted the amendment on a retrospective basis effective in the first quarter of fiscal 2019, in accordance with IFRS 9 transitional provisions. The adoption did not result in an adjustment to the Company’s consolidated financial statements.

Disclosure

Financial instrument disclosures continue to fall within the scope of IFRS 7. IFRS 7 has been amended by IFRS 9 to include additional qualitative and quantitative disclosure requirements. The Company has adopted these amendments.

Future Standards

Leases

In January 2016, the IASB issued IFRS 16, "Leases" ("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 will continue to classify leases as operating or finance leases. The standard is effective for annual periods beginning on or after January 1, 2019.

In accordance with the transition provisions in IFRS 16, the Company will adopt the standard using the modified retrospective approach, with the cumulative effect of initially applying the standard recognized as an adjustment to equity on transition. Prior period comparatives will not be restated.

The adoption of IFRS 16 will have a material impact on the Company's consolidated financial statements, given the current real estate operating lease commitments held under IAS 17 as a lessee.

The Company's consolidated balance sheets will reflect current and long-term lease liabilities and right-of-use assets for property and equipment leases where the Company is the lessee. These liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate on transition. The right-of-use assets will be measured retrospectively using the Company's incremental borrowing rate as of the date of transition. The expected range of impact on the consolidated balance sheets is increased liabilities of \$4.6 billion to \$4.8 billion and increased assets of \$4.0 billion to \$4.2 billion. These estimates have been updated from third quarter disclosures to reflect changes in market discount rates as well as new leases and lease modifications incurred. Changes to the balance sheets are estimated to be as follows:

	(\$ in millions unless otherwise stated)	
Asset increases (decreases):		
Current assets, excluding lease receivables	\$	(43.4)
Fixed assets		(22.3)
Intangible assets		(126.7)
Deferred tax assets		(43.1)
Lease receivable		520.0 to 570.0
Right-of-use assets		3.7 to 3.9 billion
Total asset estimated increase	\$	4.0 to 4.2 billion
Liability (increases) decreases:		
Provisions	\$	32.1
Debt		29.1
Other liabilities		164.4
Deferred tax liabilities		34.5
Lease liabilities		(4.9) to (5.1) billion
Total liability estimated increase	\$	(4.6) to (4.8) billion
Retained earnings estimated decrease	\$	0.5 to 0.9 billion

The Company continues to finalize estimates and inputs into the calculations. The discount rate applied is based on the Company's estimated incremental borrowing rate as of the transition date of May 5, 2019.

In the statements of earnings, the Company will recognize depreciation for right-of-use assets and finance expense on lease liabilities, in place of the current straight-line operating lease expense. For finance subleases, finance income related to income earned on lease receivables will be recognized in place of sublease income for these leases. Amortization related to off-market lease intangibles will be replaced by depreciation expense over the term of the lease. Based on current estimates and information available, the Company does not expect a material impact on net earnings and earnings per share in fiscal 2020.

There will be no change to the amount of cash exchanged related to lease transactions. Total expense recognized over the lease term is equal to total cash paid over the lease term. However, expenses under IFRS 16 will be higher when leases are early in the term as finance expense is recognized on an amortized cost basis and depreciation expense is recognized on a straight-line basis over the lease term. The Company will classify lease payments consistently with payments on other financial liabilities in the statement of cash flows, with lease payments for principal and interest on the lease liability classified as financing cash flows instead of operating cash flows. Cash rent paid net for leases impacted by IFRS 16 was \$500.6 million for fiscal 2019.

The Company is an intermediate lessor in several lease arrangements. Under the new standard, the Company has assessed its classification of subleases by reference to the right-of-use asset on the head lease as required under IFRS 16, and not by reference to the underlying asset. As a result of this change, the Company expects an increase in current and long-term lease receivables recognized for subleases which are expected to be classified as finance leases.

The Company will apply 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).

The Company has implemented a new national lease management system and continues to update processes and internal controls to enable the implementation of IFRS 16, commencing in the first quarter of fiscal 2020.

As a result of the changes, the new standard will affect many commonly used financial ratios and performance metrics. The following table presents a high level summary of IFRS 16 impacts on various Key Performance Indicators and financial ratios that are discussed as non-GAAP measures:

Non-GAAP Measure	Expected IFRS 16 Impact	Explanation
Gross profit	No impact	No IFRS 16 impact to sales or cost of sales
Adjusted operating income	Increase	Rental expense removed from operating income
EBITDA	Increase	Lease expenses will be excluded
Finance expense	Increase	Interest expense on lease liability
Adjusted net earnings	Increase/Decrease	Dependent on time left on leases in portfolio and tax rate
Adjusted EPS	Increase/Decrease	Dependent on net earnings impact
Free cash flow	No impact	The Company expects the definition will be updated to include cash rental payments
Funded debt; Net funded debt	Increase	Increases due to lease liability
Total capital; Net total capital	Increase/Decrease	Dependent on debt increases due to lease liability in comparison to equity decreases on transition
Same-store sales	No impact	No IFRS 16 impact to sales
Gross margin	No impact	No IFRS 16 impact to sales or cost of sales
Funded debt to total capital ratio	Increase/Decrease	Dependent on debt increases due to lease liability and equity decreases on transition
Net funded debt to net total capital ratio	Increase/Decrease	Dependent on debt increases due to lease liability and equity decreases
Funded debt to adjusted EBITDA	Increase/Decrease	Dependent on how both debt and EBITDA increase
Adjusted EBITDA to interest expense	Increase	EBITDA increases by more than the increase in interest
Book value per common share	Decrease	Equity decreases on transition

Uncertainty Over Income Tax Treatments

The IASB issued 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 over tax treatments. These amendments are effective for annual periods beginning on or after January 1, 2019. The Company does not expect a material impact on its consolidated financial statements.

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with generally accepted accounting principles (“GAAP”), requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation, estimates of provisions, impairments, customer loyalty programs, useful lives of property, equipment, investment property and intangibles for purposes of depreciation and amortization, and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Management regularly evaluates the estimates and assumptions it uses. Actual results could differ from these estimates.

Impairments of Goodwill and Long-Lived Assets

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

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

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

Pension Benefit Plans and Other Benefit Plans

The cost of the Company’s pension benefits for defined contribution plans are expensed at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected unit credit method pro-rated on service and management’s best estimate of salary escalation, retirement ages, and expected growth rate of health care costs.

Current market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation.

To the extent that plan amendments increase the obligation related to past service, the Company will recognize a past service cost immediately as an expense.

In measuring its defined benefit liability, the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income. The key assumptions are disclosed in Note 17 of the Company’s consolidated financial statements.

Income Taxes

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment. The financial statement carrying values of assets and liabilities are subject to accounting estimates inherent in those balances. The income tax bases of assets and liabilities are based upon the interpretation of income tax legislation across various jurisdictions. The current and deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

Changes or differences in these estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated balance sheets.

Valuation of Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation or judgment is required in the determination of (i) estimated inventory provisions associated with vendor allowances and internal charges; (ii) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (iii) inventories valued at retail and adjusted to cost. Changes or differences in any of these estimates may result in changes to inventories on the consolidated balance sheets and a charge or credit to operating income in the consolidated statements of earnings.

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material.

Business Acquisitions

For business acquisitions, the Company applies judgment on the recognition and measurement of assets and liabilities assumed and estimates are utilized to calculate and measure such adjustments. In measuring the fair value of an acquiree's assets and liabilities, management uses estimates about future cash flows and discount rates. Any measurement changes after initial recognition would affect the measurement of goodwill, except for deferred taxes.

Supply Agreements

The Company has various long-term supply agreements for products, some of which contain minimum volume purchases. Significant estimation and judgment is required in the determination of (i) future operating results; and (ii) forecasted purchase volumes. When measuring whether a provision is required based on the expected future cash flows associated with fulfilling the contract, management makes assumptions which relate to future events and circumstances. Actual results could vary from these estimated future cash flows.

Disclosure Controls and Procedures

Management of the Company, which includes the President & Chief Executive Officer (“CEO”) and Executive Vice President & Chief Financial Officer (“CFO”), is responsible for establishing and maintaining Disclosure Controls and Procedures (“DC&P”) to provide reasonable assurance that material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have evaluated the effectiveness of the Company’s DC&P and, based on that evaluation, the CEO and CFO have concluded that the Company’s DC&P was effective as at May 4, 2019 and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control Over Financial Reporting

Management of the Company, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting (“ICFR”), as that term is defined in National Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings.” The control framework management used to design and assess the effectiveness of ICFR is “*Internal Control Integrated Framework (2013)*” published by the Committee of Sponsoring Organizations of the Treadway Commission. The CEO and CFO have evaluated the effectiveness of the Company’s ICFR and, based on that evaluation, the CEO and CFO have concluded that the Company’s ICFR was effective as at May 4, 2019 and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in the Company’s ICFR during the period beginning February 3, 2019 and ended May 4, 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

RELATED PARTY TRANSACTIONS

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

The Company leased certain real property from Crombie REIT during the year at amounts which in management's opinion approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value based on the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases, which are measured at exchange amounts, totaled approximately \$206.2 million (2018 – \$199.7 million).

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

On July 4, 2017, Crombie REIT redeemed its 5.00% Series D Convertible Unsecured Subordinate Debentures. In exchange for its investment in the Series D convertible debentures, the Company received \$24.3 million in principal and interest payments. There was no gain or loss recognized on the redemption. During the year ended May 4, 2019, the Company received interest from Crombie REIT of \$ nil (2018 – \$0.2 million).

On April 11, 2019, Crombie REIT announced an agreement to sell an 89% interest in a 26 property portfolio to a third-party purchaser. 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. The lease amending agreements became effective on April 25, 2019, the closing date of the property disposal. Sobeys has accrued a total of \$9.5 million in current and long-term receivables related to these amounts.

On September 28, 2018, Sobeys, through a wholly-owned subsidiary, sold one property to Crombie REIT for cash consideration of \$3.7 million, resulting in a pre-tax gain of \$1.5 million.

On June 29, 2018, Sobeys, through a wholly-owned subsidiary, sold and leased back one property to Crombie REIT for cash consideration of \$12.5 million, resulting in a pre-tax gain of \$5.6 million.

On April 6, 2018, Sobeys and its wholly-owned subsidiaries entered into an agreement with Crombie REIT to sell a portfolio of eleven properties, nine of which were leased back. Total cash proceeds to the Company and its wholly-owned subsidiaries from this transaction were \$88.1 million, resulting in a pre-tax gain of \$13.2 million.

On September 29, 2017, Sobeys sold one property to Crombie REIT for cash consideration of \$6.4 million, resulting in a pre-tax gain of \$0.2 million.

Key Management Personnel Compensation

Key management personnel include the Board of Directors and members of the Company's executive team that have authority and responsibility for planning, directing and controlling the activities of the Company.

Key management personnel compensation is comprised of:

(\$ in millions)	52 Weeks Ended	
	May 4, 2019	May 5, 2018
Salaries, bonus and other short-term employment benefits	\$ 13.4	\$ 13.3
Post-employment benefits	3.4	1.5
Termination benefits	2.8	0.8
Share-based payments	8.6	9.8
	\$ 28.2	\$ 25.4

Indemnities

The Company has agreed to indemnify its directors, officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

CONTINGENCIES

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

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

RISK MANAGEMENT

Through its operating companies and its equity-accounted investments, Empire is exposed to a number of risks in the normal course of business that have the potential to affect operating performance.

Project Sunrise

On May 4, 2017, the Company announced a major transformation initiative to streamline the organization and enhance the efficiency of its operations. Failure to execute change management during this transition could result in disruptions to the operations of the business or the ability of the Company to implement and achieve its long-term strategic objectives. The implementation of a major transformation initiative has the ability to create labour strife, negative publicity and business disruption.

There is the risk that the Company will not realize the projected annualized savings by the completion of the three year reorganization in 2020.

Competition

Empire's food retailing business, Sobeys, operates in a dynamic and competitive market. Other national and regional food distribution companies, along with non-traditional competitors, such as mass merchandisers, warehouse clubs, and online retailers, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 900 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. A failure to maintain geographic diversification to reduce the effects of localized competition could have an adverse impact on Sobeys' operating margins and results of operations. To successfully compete, Sobeys believes it must be customer and market-driven, be focused on superior execution and have efficient, cost-effective operations. It also believes it must invest in its existing store network, as well as its merchandising, marketing and operational execution to evolve its strategic platform to better meet the needs of consumers looking for more affordable, better food options. The Company further believes it must invest in merchandising initiatives to better forecast and respond to changing consumer trends. Any failure to successfully execute in these areas could have a material adverse impact on Sobeys' financial results.

Empire's real estate operations, through its investment in Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect their ability to: (i) acquire property in compliance with their investment criteria; (ii) lease space in their properties; and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect the Company's financial results and cash flows. A failure by Crombie REIT to maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties or to maintain strategic relationships with existing and potential tenants to help achieve high occupancy levels at each of its properties could adversely affect the Company.

Product Safety and Security

Sobeys is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, food safety and product handling, including pharmaceuticals. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to Sobeys' private label products, in relation to the production, packaging and design of products.

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect Sobeys' financial performance. Procedures are in place to manage food crises, should they occur. These procedures are intended to identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from sale immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs which address safe food handling and preparation standards. However, there can be no assurance that such measures will prevent the occurrence of any such contamination, and insurance may not be sufficient to cover any resulting financial liability or reputational harm.

Drug Regulation, Legislation and Healthcare Reform

The Company currently operates 352 in-store pharmacies and 74 freestanding pharmacies which are subject to federal, provincial, territorial and local legislation as well as regulations governing the sale of prescription drugs. Changes to reimbursement models used to fund prescription drugs, including the potential implementation of a national pharmacare model or failure to comply with these laws and regulations could have a negative impact on financial performance, operations and reputation. These laws and regulations typically regulate prescription drug coverage for public plans including patient and product eligibility as well as elements of drug pricing and reimbursements including product cost, markup, dispensing fee, distribution allowances and in some provinces the ability to negotiate manufacturers allowances. In some provinces, legislation requires the selling price for prescription drugs to third-party insurance plans and cash customers will not be higher than the price established for the provincial drug plan. In addition to reimbursement, these laws and regulations govern drug approval and distribution, allowable packaging and labeling, marketing, handling, storage and disposal.

In fiscal 2019, provincial governments and private plans continued to implement measures to manage the cost of their drug plans, the impact of which varied by province and by plan. The most significant of these measures implemented April 1, 2018 was the significant price reduction of almost 70 high volume generic drugs which was the result of an agreement between the pan-Canadian Pharmaceutical Alliance and the Canadian Generic Pharmaceutical Association on behalf of the federal, provincial and territorial drug plans. The Council of the Federation, a joint collaboration created by the provincial premiers continues to work on cost reduction initiatives within the pharmaceutical sector many of which are extended to the private sector. In the fall of 2017, actions by the Alberta College of Pharmacy resulted in a ban on the ability of pharmacies to offer inducements on prescription drugs following a number of other provinces who have implemented similar bans with the potential that more provinces will follow.

It is anticipated that healthcare reform and regulation will continue to put pressure on pharmacy reimbursement through changes to patient and drug eligibility, prescription drug pricing including cost, dispensing fee, allowable markup, manufacturer allowance funding, distribution as well as potential restriction around customer inducements and expanded use of preferred providers. The Company has and will continue to identify opportunities to mitigate the negative impact these changes have on financial performance.

Free Trade

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

Loyalty Program

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

Human Resources

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

Effective leadership is very important to the growth and continued success of the Company. The Company develops and delivers training programs at all levels across its various operating regions in order to improve employee knowledge and to better serve its customers. The ability of the Company to properly develop, train and retain its employees with the appropriate skill set could affect the Company's future performance.

There is always a risk associated with the loss of key personnel. Succession plans have been identified for key roles including the depth of management talent throughout the Company and its subsidiaries; these plans are overseen by the Human Resources Committee and reviewed at least annually by the Board of Directors.

Workplace health and safety is a top priority for the Company, which has robust programs and reporting mechanisms in place designed to ensure regulatory compliance and mitigate the risks associated with workplace injury and illness.

Operations

The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchisees and affiliates operate approximately 52% of Sobeys' retail stores. Sobeys relies on its franchisees, affiliates and corporate store management to successfully execute retail strategies and programs.

To maintain controls over Sobeys' brands and the quality and range of products and services offered at its stores, franchisees and affiliates agree to purchase merchandise from Sobeys. In addition, each store agrees to comply with the policies, marketing plans and operating standards prescribed by Sobeys. These obligations are specified under franchise and operating agreements which expire at various times for individual franchisees and affiliates. Despite these franchise and operating agreements, Sobeys may have limited ability to control a franchisees' and affiliates' business operations. A breach of these franchise and operating agreements or operational failures by a significant number of franchisees and affiliates may adversely affect Sobeys' reputation and financial performance.

Technology

The Company operates extensive and complex information technology systems that are vital to the successful operation of its business and marketing strategies. Any interruption to these systems or the information collected by them would have a significant adverse impact on the Company, its operations and its financial results. The Company is committed to improving its operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk of realization of functionality.

Information Management

The integrity, reliability and security of information in all its forms is critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches or inappropriate disclosure or leaks of sensitive information. Gathering and analyzing information regarding customers' purchasing preferences is an important part of the Company's strategy to attract and retain customers and effectively compete. Any failure to maintain privacy of customer information or to comply with applicable privacy laws or regulations could adversely affect the Company's reputation, competitive position and results of operations.

The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management.

Supply Chain

The Company is exposed to potential supply chain disruptions and errors that could result in obsolete merchandise or an excess or shortage of merchandise in its retail store network. A failure to implement and maintain effective supplier selection and procurement practices could adversely affect Sobeys' ability to deliver desired products to customers and adversely affect the Company's ability to attract and retain customers. A failure to maintain an efficient supply and logistics chain may adversely affect Sobeys' ability to sustain and meet growth objectives and maintain margins.

Product Costs

Sobeys is a significant purchaser of food product which is at risk of cost inflation given rising commodity prices and other costs of production to food manufacturers. Should rising costs of product materialize in excess of expectations and should Sobeys not be able to offset such cost inflation through higher retail prices or other cost savings, there could be a negative impact on sales and margin performance.

Economic Environment

Management continues to closely monitor economic conditions, including foreign exchange rates, interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

Liquidity Risk

The Company's business is dependent in part on having access to sufficient capital and financial resources to fund its growth activities and investment in operations. Any failure to maintain adequate financial resources could impair the Company's growth or ability to satisfy financial obligations as they come due. The Company actively maintains committed credit facilities to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements. The Company monitors capital markets and the related economic conditions and maintains access to debt capital markets for long-term debt issuances as deemed prudent in order to minimize risk and optimize pricing. However, there can be no assurance that adequate capital resources will be available in the future on acceptable terms or at all.

Interest Rate Fluctuation

The Company's long-term debt objective is to maintain the majority of its debt at fixed interest rates. Any increase in the applicable interest rates could increase interest expense and have a material adverse effect on the Company's cash flow and results of operations. There can be no assurance that risk management strategies, if any, undertaken by the Company will be effective.

Business Continuity

The Company may be subject to unexpected events and natural hazards, including severe weather events, interruption of utilities and infrastructure or occurrence of pandemics, which could cause sudden or complete cessation of its day to day operations. The Company has worked with industry and government sources to develop preparedness plans. However, no such plan can eliminate the risks associated with events of this magnitude. Any failure to respond effectively or appropriately to such events could adversely affect the Company's operations, reputation and financial results.

Insurance

The Company and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and also purchase excess insurance coverage from financially stable third-party insurance companies. In addition to maintaining comprehensive loss prevention programs, the Company maintains management programs to mitigate the financial impact of operational risks. Such programs may not be effective to limit the Company's exposure to these risks, and to the extent that the Company is self-insured or liability exceeds applicable insurance limits, the Company's financial position could be adversely affected.

Ethical Business Conduct

Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could therefore negatively impact the Company's financial performance. The Company's framework for managing ethical business conduct includes the adoption of a Code of Business Conduct and Ethics which directors and employees of the Company are required to acknowledge and agree to on a regular basis and the Company maintains an anonymous, confidential whistle blowing hotline. There can be no assurance that these measures will be effective to prevent violations of law or ethical business practices.

Environmental

The Company operates its business locations across the country, including numerous fuel stations. Each of these sites has the potential to experience environmental contamination or other issues as a result of the Company's operations or the activities of third parties, including neighbouring properties.

When environmental issues are identified, any required environmental site remediation is completed using appropriate, qualified internal and external resources. The Company may be required to absorb all costs associated with such remediation, which may be substantial.

Sobeys' retail fuel locations operate underground storage tanks. Environmental contamination resulting from leaks or damages to these tanks is possible. To mitigate this environmental risk, Sobeys engages in several monitoring procedures, as well as risk assessment activities, to minimize potential environmental hazards.

These activities mitigate but do not eliminate the Company's environmental risk, and as such, along with the risk of changes to existing environmental protection regulatory requirements, there remains exposure for negative financial and operational impacts to the Company in future years.

Occupational Health and Safety

The Company has developed programs to promote a healthy and safe workplace, as well as progressive employment policies focused on the well being of the thousands of employees who work in its stores, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board of Directors.

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail stores, as well as for its commercial property and residential development operations, with direct or indirect Company ownership being an important, but not overriding, consideration. The Company develops certain retail store locations on owned sites; however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and the ability to expand existing stores are therefore in large part contingent upon the successful negotiation of operating leases with these developers and the Company's ability to purchase high potential sites.

Legal, Taxation and Accounting

Changes to any of the various federal and provincial laws, rules and regulations related to the Company's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to the Company. Failure to fully comply with various laws and rules and regulations may expose the Company to proceedings which may materially affect its performance.

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company. The Company mitigates the risk of not being in compliance with the various laws and rules and regulations by monitoring for newly adopted activities, improving technology systems and controls, improving internal controls to detect and prevent errors and overall application of more scrutiny to ensure compliance. In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

Utility and Fuel Prices

The Company is a significant consumer of electricity, other utilities and fuel. The costs of these items have been subject to significant volatility. Unanticipated cost increases in these items could negatively affect the Company's financial performance. A failure to maintain effective consumption and procurement programs could adversely affect the Company's financial results. In addition, Sobeys operates a large number of fuel stations. Significant increases in wholesale prices or availability could adversely affect operations and financial results of the fuel retailing business.

Credit Rating

There can be no assurance that the credit ratings assigned to the various debt instruments issued by Sobeys will remain in effect for any given period of time or that the rating will not be lowered, withdrawn or revised by DBRS or S&P at any time. Real or anticipated changes in credit ratings can affect the cost at which Sobeys can access the capital markets. The likelihood that Sobeys' creditors will receive payments owing to them will depend on Sobeys' financial health and creditworthiness. Credit ratings assigned by a ratings agency provide an opinion of that ratings agency on the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Receipt of a credit rating provides no guarantee of Sobeys' future creditworthiness.

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro, the Great British Pound ("GBP") and the United States Dollar ("USD"). USD purchases of products represent approximately 4.5% of Sobeys' total annual purchases. Euro and GBP purchases are primarily limited to specific contracts for capital expenditures. A failure to adequately manage the risk of exchange rate changes could adversely affect the Company's financial results.

Capital Allocation

It is important that capital allocation decisions result in an appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including the Board of Directors' review of significant capital allocation decisions.

Seasonality

The Company's operations as they relate to food, specifically inventory levels, sales volume and product mix, are impacted to some degree by certain holiday periods in the year.

Foreign Operations

The Company has certain foreign operations. The Company's foreign operations are limited to a produce sourcing operation and residential real estate partnerships based in the United States.

Pension Plans

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

The Company participates in various multi-employer pension plans, providing pension benefits to unionized employees pursuant to provisions in collective bargaining agreements. Approximately 16% of the employees of Sobeys and its franchisees and affiliates participate in these plans. The responsibility of Sobeys, its franchisees, and affiliates to make contributions to these plans is limited to the amounts established in the collective bargaining agreements and other associated agreements, however poor performance of these plans could have a negative effect on the participating employees or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

Leverage Risk

The Company's degree of leverage could have adverse consequences for the Company. These include limiting the Company's ability to obtain additional financing for working capital and activities such as capital expenditures, product development, debt service requirements, and acquisitions. Higher leveraging restricts the Company's flexibility and discretion to operate its business by limiting the Company's ability to declare dividends due to having to dedicate a portion of the Company's cash flows from operations to the payment of interest on its existing indebtedness. Utilizing cash flows for interest payments also limits capital available for other purposes including operations, capital expenditures and future business opportunities. Increased levels of debt expose the Company to increased interest expense on borrowings at variable rates thereby limiting the Company's ability to adjust to changing market conditions. This could place the Company at a competitive disadvantage compared to its competitors that have less debt, by making the Company vulnerable during downturns in general economic conditions and limiting the Company's ability to make capital expenditures that are important to its growth and strategies.

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 measures and metrics, including EBITDA and net earnings in an effort to provide investors and analysts with a more comparable year-over-year performance metric than the basic measure by excluding certain items. These items 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 truer economic representation on a comparative basis. Adjusted operating income is reconciled to operating income in its respective subsection of the “Summary Results – Fourth Quarter” and “Operating Results – Full Year” sections. 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 exclusion of depreciation and amortization of intangibles partially eliminates the non-cash impact from operating income.

The following table reconciles net earnings to EBITDA:

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 4, 2019	May 5, 2018	May 4, 2019	May 5, 2018
Net earnings	\$ 128.9	\$ 73.5	\$ 416.4	\$ 179.8
Income tax expense	44.1	11.7	144.3	56.2
Finance costs, net	21.2	25.4	91.6	110.5
Operating income	194.2	110.6	652.3	346.5
Depreciation	84.7	85.6	333.0	351.8
Amortization of intangibles	21.2	21.6	84.2	87.4
EBITDA	\$ 300.1	\$ 217.8	\$ 1,069.5	\$ 785.7

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance. These adjustments result in a truer economic representation on a comparative basis. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the “Summary Results – Fourth Quarter” and “Operating Results – Full Year” sections. Adjusted EBITDA for the Food Retailing Segment is reconciled to EBITDA in the “Food Segment Reconciliations” section of this MD&A.
- Management calculates interest expense as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income or losses. Management believes that interest expense represents a true measure of the Company’s debt service expense, without the offsetting total finance income.

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

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 4, 2019	May 5, 2018	May 4, 2019	May 5, 2018
Finance costs, net	\$ 21.2	\$ 25.4	\$ 91.6	\$ 110.5
Plus: finance income	5.3	2.3	12.6	6.0
Less: net pension finance costs	(3.1)	(3.2)	(12.0)	(11.9)
Less: accretion expense on provisions	(0.7)	(2.9)	(5.7)	(7.7)
Interest expense	\$ 22.7	\$ 21.6	\$ 86.5	\$ 96.9

- 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 truer economic representation of the underlying business on a comparative basis. Adjusted net earnings is reconciled to net earnings in its respective subsection of the “Summary Results – Fourth Quarter” and “Operating Results – Full Year” sections. 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. 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 and long-term debt. Management believes that funded debt represents the best 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 financial obligations after 100% of cash and cash equivalents are applied against the total obligation.
- 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 tables reconcile the Company's funded debt, net funded debt, net total capital and total capital to GAAP measures as reported on the balance sheets as at May 4, 2019, May 5, 2018 and May 6, 2017, respectively:

(\$ in millions)	May 4, 2019		May 5, 2018		May 6, 2017	
Long-term debt due within one year	\$	36.5	\$	527.4	\$	134.0
Long-term debt		1,984.4		1,139.5		1,736.8
Funded debt		2,020.9		1,666.9		1,870.8
Less: cash and cash equivalents		(553.3)		(627.9)		(207.3)
Net funded debt		1,467.6		1,039.0		1,663.5
Total shareholders' equity, net of non-controlling interest		4,003.3		3,702.8		3,644.2
Net total capital	\$	5,470.9	\$	4,741.8	\$	5,307.7

(\$ in millions)	May 4, 2019		May 5, 2018		May 6, 2017	
Funded debt	\$	2,020.9	\$	1,666.9	\$	1,870.8
Total shareholders' equity, net of non-controlling interest		4,003.3		3,702.8		3,644.2
Total capital	\$	6,024.2	\$	5,369.7	\$	5,515.0

Food Segment Reconciliations

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

(\$ in millions)	52 Weeks Ended			\$		
	May 4, 2019	May 5, 2018	Change			
Operating income	\$	561.8	\$	273.6	\$	288.2
Adjustments:						
Intangible amortization associated with the Canada Safeway acquisition		24.6		26.2		
Business acquisition costs		6.7		-		
Costs related to Project Sunrise		-		207.8		
Western Canada store closures		-		21.2		
		31.3		255.2		(223.9)
Adjusted operating income	\$	593.1	\$	528.8	\$	64.3

(\$ in millions)	52 Weeks Ended			\$		
	May 4, 2019	May 5, 2018	Change			
EBITDA	\$	978.7	\$	712.5	\$	266.2
Adjustments:						
Business acquisition costs		6.7		-		
Costs related to Project Sunrise		-		207.8		
Western Canada store closures		-		21.2		
		6.7		229.0		(222.3)
Adjusted EBITDA	\$	985.4	\$	941.5	\$	43.9

(\$ in millions)	52 Weeks Ended			\$		
	May 4, 2019	May 5, 2018	Change			
Net earnings	\$	316.5	\$	116.5	\$	200.0
Adjustments (net of income taxes):						
Intangible amortization associated with the Canada Safeway acquisition		17.8		19.2		
Business acquisition costs		4.9		-		
Costs related to Project Sunrise		-		150.1		
Western Canada store closures		-		15.5		
		22.7		184.8		(162.1)
Adjusted net earnings	\$	339.2	\$	301.3	\$	37.9

Financial Metrics

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

- Same-store sales are sales from stores in the same location in both reporting periods. 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 cost control 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.
- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholder's equity.
- Funded debt to total capital ratio is funded debt divided by total capital.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that funded debt to total capital and net funded debt to net total capital ratios represent measures upon which the Company's changing capital structure can be analyzed over time. Increasing ratios would indicate that the Company is using an increasing amount of debt in its capital structure to fund its operations.
- 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 May 4, 2019, May 5, 2018 and May 6, 2017:

(\$ in millions, except per share information)	May 4, 2019	May 5, 2018	May 6, 2017
Shareholders' equity, net of non-controlling interest	\$ 4,003.3	\$ 3,702.8	\$ 3,644.2
Shares outstanding (basic)	271.9	271.8	271.9
Book value per common share	\$ 14.72	\$ 13.62	\$ 13.40

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

Approved by Board of Directors: June 26, 2019
Stellarton, Nova Scotia, Canada