empire
COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED MAY 6, 2023

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 fourth quarter and fiscal year ended May 6, 2023 compared to the fourth quarter and fiscal year ended May 7, 2022. The MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended May 6, 2023, and the fiscal year ended May 7, 2022. 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 21, 2023, 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:

- Management's expectations regarding the scope and impact of the Cybersecurity Event (as defined under the heading "Business Update – Cybersecurity Event"), and the estimate of the impact on its financial results in 2024. These statements and expectations may be impacted by several factors including the nature, amount and timing of the insurance outcome;
- The Company's aim to increase total adjusted earnings per share ("EPS") through net earnings, growth, and share repurchases, as well as its intention to continue improving sales, gross margin (excluding fuel) and adjusted earnings before interest, taxes, depreciation, and amortization ("EBITDA") margin, all of which could be impacted by several factors including a prolonged unfavourable macro-economic environment and unforeseen business challenges, as well as the factors identified in the "Risk Management" section of this MD&A;
- The Company's plan to invest capital in its store network including store expansions and renovations and renovate approximately 20% to 25% of the network over the next three years which could be impacted by cost of materials, availability of contractors, operating results, and other macro-economic impacts;
- The Company's expectation that it will continue its e-commerce expansion with Voilà, which may be impacted by future operating and capital costs, customer response and the performance of its technology provider, Ocado Group plc ("Ocado");
- The Company's plan to integrate Voilà and Grocery Gateway may be impacted by pre-existing supplier relationships;
- The Company's expectation that it will continue to focus on driving efficiency and cost effectiveness initiatives which could be impacted by supplier relationships, labour relations, and other macro-economic impacts;

- The FreshCo expansion in Western Canada and Farm Boy expansion in Ontario, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, the projected number of store openings, and the location, feasibility and timing of construction, all of which may be impacted by construction schedules and permits, the macro-economic environment and labour relations;
- The Company's plans to further grow and enhance the Own Brand portfolio, which may be impacted by future operating costs and customer response;
- The Company's expectation of the impacts of cost inflationary pressures, which may be impacted by supplier relationships and negotiations and the macro-economic environment;
- The Company's expectations regarding the amount and timing of expenses relating to the completion of any future Customer Fulfilment Centres ("CFC"), which may be impacted by supply of materials and equipment, construction schedules and capacity of construction contractors;
- The Company's expectations on the timing of the disposition of 56 retail fuel sites in Western Canada, which may be impacted by regulatory approval and closing conditions;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in capital markets;
- The Company's expectation that its cash and cash equivalents on hand, together with unutilized aggregate 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 macro-economic environment, operating results; and
- The Company's plans to purchase for cancellation Class A shares under the normal course issuer bid, which may be impacted by market and macro-economic conditions, availability of sellers, changes in laws and regulations, and the results of operations.

By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of this MD&A.

Although the Company believes the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can provide no assurance that such matters will prove correct. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. The forward-looking information in this document reflects the Company's current expectations and is subject to change. The Company does not undertake to update any forward-looking statements that may be made by or on behalf of the Company other than as required by applicable securities laws.

OVERVIEW OF THE BUSINESS

Empire's key businesses and financial results are segmented into two reportable segments: (i) Food retailing; and (ii) Investments and other operations. With approximately $30.5 billion in annual sales and $16.5 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 131,000 people.

Empire's Food retailing segment is carried out through Sobeys, a wholly-owned subsidiary. Proudly Canadian, with headquarters in Stellarton, Nova Scotia, Sobeys has been serving the food shopping needs of Canadians since 1907. Sobeys owns, affiliates or franchises more than 1,600 stores in all 10 provinces under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo, Thrifty Foods, Farm Boy, Longo's and Lawtons Drugs, operates grocery e-commerce under the banners Voilà, Grocery Gateway, IGA.net and ThriftyFoods.com, and operates more than 350 retail fuel locations.

Project Horizon

The Company successfully completed its three-year growth strategy, Project Horizon, at the end of fiscal 2023. As part of this strategy, the Company realized significant benefits from the store renovation program, new store expansion (including FreshCo conversions and Farm Boy expansion), promotional optimization and data analytics, *Scene+* (a new loyalty program), personalization of customer offers, growing and enhancing the Own Brand portfolio, and generating strategic sourcing cost efficiencies. The Company achieved management's target of an incremental $500 million in annualized EBITDA.

Project Horizon initiatives will continue to provide benefits in fiscal 2024 and beyond, including *Scene+*, personalization and a continued emphasis on developing the store network through renovations and new store expansion.

Over Project Horizon's three-year timeframe, the Company achieved a compound annual growth rate ("CAGR") in EPS of approximately 13% and an increase in EBITDA margin(1) of approximately 60 basis points, consistent with management's updated expectations provided in the third quarter of fiscal 2023. Differences compared to the original Project Horizon targets of improving EBITDA margin by 100 basis points, which was expected to generate an EPS CAGR of at least 15% was largely due to delays in delivering some key initiatives as a result of the novel coronavirus ("COVID-19" or "pandemic") and the Cybersecurity Event (as defined under the heading "Business Update – Cybersecurity Event"), higher depreciation than originally anticipated resulting from higher capital spend, and the impact of significant and unexpected inflation.

The Company's calculation of the EPS CAGR and the EBITDA margin increase excludes the full impacts of the Cybersecurity Event (due to its unusual nature and the expectation that the timing of certain insurance recoveries will occur after the fiscal year end) and the one-time costs associated with the Grocery Gateway integration. See "Business Updates – Cybersecurity Event" and "Business Updates – Voilà" for more information on these adjustments.

Company Priorities

Over the last six years, the Company has successfully completed two transformation strategies, Project Sunrise and Project Horizon. These strategies have comprehensively reset Empire's foundation, enhanced the Company's data capabilities, deepened the understanding of customers, and prepared the business to effectively capture emerging trends. With these transformation strategies now accomplished and the turnaround complete, the Company aims to grow total adjusted EPS over the long-term through net earnings growth and share repurchases. The Company intends to continue improving sales, gross margin (excluding fuel) and adjusted EBITDA margin by focusing on priorities such as:

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

Continued Focus on Store:

Over recent years, the Company has accelerated investments in renovations, conversions, and new stores along with store processes, communications, training, technology and tools. Beyond fiscal 2023, investing in the store network will remain a priority, demonstrated by a sustained emphasis on renovations and continued store expansion in Discount. The Own Brands program enhancement will remain a priority through increased distribution, shelf placement and product innovation.

The Company intends to invest capital in its store network and is planning to renovate approximately 20% to 25% of the network over the next three years. This capital investment includes important sustainability initiatives such as refrigeration system upgrades, heating, ventilation and air conditioning ("HVAC") system upgrades and other energy efficiency initiatives.

Enhanced Focus on Digital and Data:

The focus on digital and data will include continued e-commerce expansion with Voilà, loyalty, through *Scene+* (see "Business Updates – Voilà" and "Business Updates – *Scene+*" for more information), personalization, improved space productivity and the continued improvement of promotional optimization. Space productivity will further enhance the customer experience by improving store layouts, optimizing category and product adjacencies and tailoring product assortment for each store. The advanced analytics tools built for promotional optimization will continue to be refined through the partnership between the advanced analytics team and category merchants.

Efficiency and Cost Control:

The Company has significantly improved its efficiency and cost effectiveness through sourcing efficiencies, optimizing supply chain productivity and improving systems and processes. Beyond fiscal 2023, the Company will continue to focus on driving efficiency and cost effectiveness through initiatives related to strategic sourcing and supply chain productivity.

Business Updates

Cybersecurity Event

On November 4, 2022, Empire experienced IT system issues related to a cybersecurity event (the "Cybersecurity Event" or "Event"). Upon discovery, the Company immediately activated its incident response and business continuity plans, including the engagement of world-class experts, isolated the source and implemented measures to prevent further spread.

This Cybersecurity Event and the precautionary response caused some temporary challenges in the third quarter. For example, availability of some products was temporarily impacted, pharmacy services were shut down for four days while some in-store services, such as self-checkouts, gift cards and redemption of *Scene+* points were impacted for approximately one week. Other than this, customers would have noticed very few changes to their normal shopping experience.

Empire's security teams, supplemented by leading cyber defense firms, worked to remediate this incident, implemented preventative measures, including proactively shutting down certain systems out of an abundance of caution, and took steps to supplement existing security monitoring, scanning and protective measures. During restoration efforts, the Company established certain workaround processes to ensure continuity of supply chain, product availability, costing and retail pricing. Empire completed its controlled and phased approach to systematically bringing information and administrative systems back online early in the fourth quarter of fiscal 2023.

The Company regards the protection of personal information as critically important and has taken all required steps with privacy regulators and potentially impacted individuals.

The Company has a multi-layered security approach involving cyber software tools, controls, policies, standards and procedures pertaining to security access, system development, change management and problem and incident management. This Cybersecurity Event has reinforced the importance of the investments already made in the cybersecurity area, as well as upcoming investments in the IT systems and people. Continuous enhancement of the Company's IT infrastructure will strengthen its defense against future such incidents.

The Company maintains a variety of insurance coverages, including cyber insurance. Empire is in the process of working with its insurance providers to make claims under its policies. Due to the complexity of the cyber insurance coverage and related claims, there is a time lag between the initial incurrence of costs and the recognition of anticipated insurance proceeds. While the operational impact of the Cybersecurity Event is behind the Company, management expects that there will be additional insurance recoveries in fiscal 2024.

The Cybersecurity Event is considered an unusual item and has been excluded from the Company's assessment of Project Horizon. For comparative purposes, the Company is presenting adjusted operating income(1), adjusted EBITDA(1), adjusted net earnings(1) and adjusted EPS(1) (collectively, the "Adjusted Metrics") to exclude certain impacts of the Cybersecurity Event. The net financial impact of incremental direct costs, inventory shrink and insurance recoveries on net earnings in the fourth quarter and fiscal year ended May 6, 2023 were $5.0 million and ($34.1) million, respectively. Please refer to the "Summary Results – Fourth Quarter" and "Operating Results – Full Year" sections of this document for a more detailed discussion, including a reconciliation of these non generally accepted accounting principles ("GAAP") financial measures.

In addition, certain financial impacts are not reflected in the Adjusted Metrics described above, as they relate to sales declines which management considers are attributable to the Cybersecurity Event and the associated temporary decline in operational effectiveness during the Cybersecurity Event. Management estimates that the impact on net earnings in the fourth quarter was insignificant and the impact on the fiscal year ended May 6, 2023, was at least ($15) million, from impacts such as the temporary loss of advanced planning, promotion, and fresh item management tools, temporary closures of pharmacies and customers' inability to redeem gift cards and loyalty points.

Empire estimates, based on available information, that the final impact on net earnings over fiscal 2023 and fiscal 2024 will be approximately ($32.0) million, net of estimated insurance recoveries.

***Scene*+**

In June 2022, the Company launched a new loyalty strategy through *Scene*+, one of Canada's leading loyalty programs. Along with Scotiabank and Cineplex, the Company is now a co-owner of *Scene*+. The new loyalty program was successfully launched in Atlantic Canada in August 2022, followed by Western Canada in September 2022, Ontario in November 2022 and Quebec & Thrifty Foods in March 2023.

As part of the *Scene*+ rollout, the Company launched its next generation recommendation engine for one-to-one, machine learning powered personalization at scale. The recommendation engine is focused on improving customer engagement and offer relevancy. The target algorithms will continue to improve over time, driving progressively better performance and results.

Farm Boy

The acquisition of Farm Boy on December 10, 2018 added 26 locations to the Company's Ontario store network. The Company expects to open an additional 22 stores in the five years following the acquisition date, mainly in the Greater Toronto Area ("GTA"). For the fiscal year, the Company opened a total of three new stores. As at June 21, 2023, Farm Boy has 47 stores operating in Ontario. In fiscal 2024, the Company expects to open two additional Farm Boy stores in Ontario.

FreshCo

In fiscal 2018, the Company announced plans to expand its FreshCo discount format to Western Canada with expectations of converting up to 25% of the 255 Safeway and Sobeys full-service format stores in Western Canada to the FreshCo banner.

Through the FreshCo expansion program, the discount business in Western Canada has been on a sharp growth trajectory, driven by store conversions and regional expansion. The value proposition, strong multicultural assortment along with the addition of the *Scene*+ loyalty program has supported the growth and expansion of the discount format.

As at June 21, 2023, FreshCo has 44 stores operating in Western Canada including four stores opened during fiscal 2023, in line with management's expectations. In fiscal 2024, the Company expects to open an additional three FreshCo stores in Western Canada.

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

Voilà

In fiscal 2021, the Company introduced its new e-commerce platform, Voilà, which is the future of online grocery home delivery in Canada. Voilà is powered by industry-leading technology provided by Ocado through its automated CFCs. The Company will operate four CFCs across Canada with supporting spokes and curbside pickup. The Company will be able to serve approximately 75% of Canadian households representing approximately 90% of Canadians' projected e-commerce spend.

The first CFC in Toronto began deliveries in June 2020. The second CFC in Montreal began deliveries in March 2022. The third CFC in Calgary which services the majority of Alberta, began deliveries on June 20, 2023. The fourth CFC in Vancouver will service customers in B.C. starting in calendar 2025. In fiscal 2021, the Company launched Voilà curbside pickup, which currently services 98 stores in locations across Canada and is also powered by Ocado technology.

Longo's e-commerce business, Grocery Gateway, will be merged into Voilà in July 2023 thereby capturing logistics and delivery synergies. Operating as a 'shop in shop' will increase the reach of Longo's within Ontario and increase Voilà's product count by approximately 2,000 Longo's products. The costs of the integration were charged to earnings in the fourth quarter of fiscal 2023 and were approximately $7.0 million, net of tax and non-controlling interest.

Voilà's future earnings will primarily be impacted by the rate of sales growth, with operational efficiencies, margins, and cost discipline serving as important drivers to manage financial performance.

In the fourth quarter of fiscal 2023, the Company's four e-commerce platforms (Voilà, Grocery Gateway, IGA.net and ThriftyFoods.com) experienced a combined sales decline of 13.5% compared to the same quarter in the prior year (excluding the additional week of operations in the prior year). The decrease is primarily driven by higher online sales in the fourth quarter of fiscal 2022 as a result of the pandemic, which had an outsized impact on the Company's non-Voilà e-commerce businesses. According to third-party market data, Voilà continues to outperform the market over the last fiscal year.

Longo's

On May 10, 2021, the Company, through a wholly-owned subsidiary, acquired 51% of Longo's, a long-standing, family-built network of specialty grocery stores in the GTA, and its Grocery Gateway e-commerce business. The purchase price of the transaction was $660.6 million. The Company acquired the business through the issuance of 3,187,348 Non-Voting Class A shares with a transaction date price of $129.6 million, cash of $196.6 million and a contingent note payable of $10.7 million.

After the fifth anniversary of the transaction, the Longo's 49% non-controlling shareholders have an option to sell up to a 12.25% interest in Longo's to Sobeys per annum, at a multiple applied to the last 12 months EBITDA. The multiple will vary depending on achievement of certain business results. If Longo's non-controlling shareholders exercise an option to sell, Sobeys will have a corresponding call option for the same percentage in the following year. After the tenth anniversary of the transaction, both Sobeys and Longo's have mutual put and call options for any remaining minority shares outstanding. A financial liability of $239.7 million was recognized at the date of acquisition which is remeasured at the end of each quarter.

Sustainable Business Reporting

Environmental, Social and Governance (“ESG”) has deep roots in the Company’s history, and the principles of ESG have been a part of the organization since the Company started over 115 years ago.

The Company published its 2022 Sustainable Business Report in July 2022 which set bold, science-based emissions reduction targets in support of Canada’s transition to a low-carbon economy. This is a significant step forward in the Company’s plan to help combat climate change and is the latest step in the journey to commit and invest in sustainability. As part of the Company’s sustainability commitments and corporate governance practices, the Company launched a newly established Sustainable Business Council (the “Council”) in fiscal 2023. In conjunction with the Company’s science-based targets (which are being validated by the Science-Based Targets initiative), the Council will ensure accurate reporting of carbon emissions for internal monitoring and external reporting.

The Company is focused on several initiatives as part of a continuing ESG journey such as working to remove plastics from the business, focusing on reducing or eliminating avoidable and hard-to-recycle plastics, expanding the Company’s efforts to cultivate a fair, equitable and inclusive environment for all and embedding sustainable business mandates within the Company’s performance management goals.

OUTLOOK

With the Company’s turnaround complete, management aims to grow total adjusted EPS over the long-term through net earnings growth and share repurchases. The Company intends to continue improving sales, gross margin (excluding fuel) and adjusted EBITDA margin by focusing on priorities such as: a continued focus on stores (investing in renovations, Discount expansion, and Own Brands program enhancement), an expanded focus on digital and data (through key strategic initiatives including Voilà, *Scene*+, personalization, space productivity and promotional optimization), and driving efficiency and cost effectiveness through initiatives related to strategic sourcing and supply chain.

For fiscal 2024, capital spend is expected to be approximately $775 million, with approximately half of this investment allocated to renovations and new store expansion, and approximately $50 million allocated toward sustainability initiatives such as refrigeration system upgrades, HVAC system upgrades and other energy efficiency initiatives. The Company is planning to renovate approximately 20% to 25% of the network over the next three years.

During fiscal 2024, the Company intends to purchase approximately $400 million in Class A shares under an NCIB. The Company has declared a quarterly dividend which reflects an increase in the annualized dividend rate of 10.6%, marking the 28th consecutive year of dividend increases.

The Company continues to be well positioned to pursue growth despite the impacts of global economic uncertainties such as higher than normal inflation and supply chain challenges. The industry continues to experience heightened levels of inflationary pressures, particularly related to cost of goods sold and fuel. Although it is difficult to estimate how long these pressures will last, the Company is focused on supplier relationships and negotiations to ensure competitive pricing for customers whose shopping behaviours become more price sensitive in a heightened inflationary environment.

On December 13, 2022, the Company signed a definitive agreement between a wholly-owned subsidiary of Sobeys and Canadian Mobility Services Limited, a wholly-owned subsidiary of Shell Canada, to sell all 56 retail fuel sites in Western Canada for approximately $100.0 million. Closing of the transaction is subject to customary conditions, including regulatory approvals. The Company expects the transaction to close in the first half of fiscal 2024.

SUMMARY RESULTS – FOURTH QUARTER

The Company's fourth quarter ends on the first Saturday in May. As a result, the fourth quarter is usually 13 weeks but includes results for 14 weeks every five to six years. The quarters ended May 6, 2023 and May 7, 2022 were 13 and 14 weeks, respectively. The 53rd week of operations in fiscal 2022 accounted for approximately $551.0 million in sales and generated earnings per share of approximately $0.07.

On November 4, 2022, Empire experienced IT system issues related to a Cybersecurity Event. The Company has included in its Adjusted Metrics an adjustment for direct costs such as inventory shrink, hardware and software restoration costs, legal and professional fees, and labour costs, net of insurance recoveries to date. The adjustment to net earnings for the quarter ended May 6, 2023 was a recovery of $5.0 million. Empire is in the process of working with its insurance providers to make claims under its policies. Due to the complexity of the cyber insurance coverage and related claims, there is a time lag between the initial incurrence of costs and the recognition of anticipated insurance proceeds.

Longo's e-commerce business, Grocery Gateway, will be merged into Voilà in July 2023. The Company has included in its Adjusted Metrics an adjustment for the costs of the integration charged to earnings in the fourth quarter of fiscal 2023 which were approximately $7.0 million, net of tax and non-controlling interest.

($ in millions, except per share amounts)	**13 Weeks Ended May 6, 2023**	14 Weeks Ended May 7, 2022	$ Change	% Change
Sales	**$ 7,408.4**	$ 7,840.8	$ (432.4)	(5.5)%
Gross profit(1)	**1,959.0**	2,004.0	(45.0)	(2.2)%
Operating income	**321.6**	333.6	(12.0)	(3.6)%
Adjusted operating income(1)	**328.1**	333.6	(5.5)	(1.6)%
EBITDA(1)	**592.3**	586.2	6.1	1.0%
Adjusted EBITDA(1)	**598.8**	586.2	12.6	2.1%
Finance costs, net	**70.2**	82.0	(11.8)	(14.4)%
Income tax expense	**63.5**	58.2	5.3	9.1%
Non-controlling interest	**5.0**	14.9	(9.9)	(66.4)%
Net earnings(2)	**182.9**	178.5	4.4	2.5%
Adjusted net earnings(1)(2)	**184.9**	178.5	6.4	3.6%
Basic earnings per share				
Net earnings(2)	**$ 0.72**	$ 0.68		
Adjusted net earnings(1)(2)	**$ 0.73**	$ 0.68		
Basic weighted average number of shares outstanding (in millions)	**254.9**	263.0		
Diluted earnings per share				
Net earnings(2)	**$ 0.72**	$ 0.68		
Adjusted net earnings(1)(2)	**$ 0.72**	$ 0.68		
Diluted weighted average number of shares outstanding (in millions)	**255.4**	264.0		
Dividend per share	**$ 0.165**	$ 0.150		

	13 Weeks Ended May 6, 2023	14 Weeks Ended May 7, 2022
Gross margin(1)	**26.4%**	25.6%
EBITDA margin(1)	**8.0%**	7.5%
Adjusted EBITDA margin(1)	**8.1%**	7.5%
Same-store sales(1) growth (decline)	**1.6%**	(0.1)%
Same-store sales growth (decline), excluding fuel	**2.6%**	(2.5)%
Effective income tax rate	**25.3%**	23.1%

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

Empire Company Limited Consolidated Operating Results

Sales

Sales for the quarter ended May 6, 2023 decreased by 5.5% mainly due to the additional week of operations in fiscal 2022 and lower fuel sales, offset by benefits from Project Horizon initiatives and continued strength in the Company's discount banners.

Gross Profit

Gross profit for the quarter ended May 6, 2023 decreased by 2.2% mainly as a result of the additional week of operations in fiscal 2022, partially offset by benefits from Project Horizon initiatives, such as promotional optimization and the expansion of FreshCo.

Gross margin for the quarter ended May 6, 2023 increased to 26.4% from 25.6% in the prior year. Gross margin increased primarily as a result of benefits from Project Horizon initiatives, lower supply chain costs and the mix impact of lower fuel sales. Gross margin, excluding the mix impact of fuel, increased by 58 basis points.

Operating Income

($ in millions)		**13 Weeks Ended May 6, 2023**		14 Weeks Ended May 7, 2022		$ Change
Food retailing	**$**	**304.5**	$	321.2	$	(16.7)
Investments and other operations:						
Crombie REIT		**10.9**		10.7		0.2
Genstar		**6.5**		3.3		3.2
Other operations, net of corporate expenses		**(0.3)**		(1.6)		1.3
		17.1		12.4		4.7
Operating income	**$**	**321.6**	$	333.6	$	(12.0)
Adjustments:						
Cybersecurity Event[(1)]	**$**	**(6.8)**	$	-	$	(6.8)
Grocery Gateway Integration[(1)]		**13.3**		-		13.3
Adjusted operating income[(2)]	**$**	**328.1**	$	333.6	$	(5.5)

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

For the quarter ended May 6, 2023, operating income from the Food retailing segment decreased mainly due to higher sales and gross profit in the prior year partially offset by lower selling and administrative expenses in the current year, both resulting from the additional week of operations in the quarter ended May 7, 2022. Selling and administrative expenses decreased primarily due to one less week of operations, resulting in a reduction of retail labour costs and other variable operating expenses, as well as lower annual incentives compared to the prior year. The decrease in selling and administrative expenses was partially offset by planned investments in Project Horizon initiatives (including the expansion of Farm Boy, Voilà and FreshCo) and higher depreciation.

For the quarter ended May 6, 2023, operating income from the Investments and other operations segment increased primarily as a result of higher equity earnings from Genstar, mainly due to higher property sales compared to prior year.

EBITDA

($ in millions)		**13 Weeks Ended May 6, 2023**		14 Weeks Ended May 7, 2022		$ Change
EBITDA	**$**	**592.3**	$	586.2	$	6.1
Adjustments:						
Cybersecurity Event[1]		**(6.8)**		-		(6.8)
Grocery Gateway Integration[1]		**13.3**		-		13.3
Adjusted EBITDA[2]	**$**	**598.8**	$	586.2	$	12.6

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

For the quarter ended May 6, 2023, EBITDA increased to $592.3 million from $586.2 million in the prior year mainly as a result of the same factors affecting operating income (which excludes the increase in depreciation and amortization). EBITDA margin increased to 8.0% from 7.5% in the prior year. Adjusted EBITDA margin increased to 8.1% from 7.5% in the prior year.

Finance Costs

For the quarter ended May 6, 2023, net finance costs decreased primarily due to the early redemption premium of $9.2 million which occurred in the prior year related to the $500 million Series 2013-2 Notes.

Income Taxes

The effective income tax rate for the quarter ended May 6, 2023 was 25.3% compared to 23.1% last year. The effective tax rate was lower than the statutory rate primarily due to the revaluation of tax estimates, not all of which are recurring. The effective tax rate in the same quarter last year was lower than the statutory rate primarily due to benefits related to investment tax credits and capital items taxed at lower rates.

Net Earnings

($ in millions, except per share amounts)		**13 Weeks Ended May 6, 2023**		14 Weeks Ended May 7, 2022		$ Change
Net earnings[1]	**$**	**182.9**	$	178.5	$	4.4
EPS (fully diluted)	**$**	**0.72**	$	0.68		
Adjustment (net of income taxes of $4.5):						
Cybersecurity Event[2]		**(5.0)**		-		(5.0)
Grocery Gateway Integration[2]		**7.0**		-		7.0
Adjusted net earnings[1][3]	**$**	**184.9**	$	178.5	$	6.4
Adjusted EPS (fully diluted)[3]	**$**	**0.72**	$	0.68		
Diluted weighted average number of shares outstanding (in millions)		**255.4**		264.0		(8.6)

(1) Attributable to owners of the Company.
(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included.
(3) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A.

OPERATING RESULTS – FULL YEAR

The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but includes results for 53 weeks every five to six years. The years ended May 6, 2023 and May 7, 2022 were 52 and 53 weeks, respectively. The 53rd week of operations in fiscal 2022 accounted for approximately $551.0 million in sales and generated earnings per share of $0.07.

On November 4, 2022, Empire experienced IT system issues related to a Cybersecurity Event. The Company has included in its Adjusted Metrics an adjustment for direct costs such as inventory shrink, legal and professional fees, hardware and software restoration costs and labour costs, net of insurance recoveries to date. The adjustment to net earnings was ($34.1) million.

In addition, the Cybersecurity Event required certain operational systems to be shut down for several weeks. The inability to utilize these systems had a temporary negative impact on Empire's sales and operational effectiveness, further impacting third quarter and Fiscal 2023 net earnings by at least ($15.0) million (($0.06) per share). There was no incremental impact in the fourth quarter.

Empire is in the process of working with its insurance providers to make claims under its policies. Due to the complexity of the cyber insurance coverage and related claims, there is a time lag between the initial incurrence of costs and the recognition of anticipated insurance proceeds.

Longo's e-commerce business, Grocery Gateway, will be merged into Voilà in July 2023. The Company has included in its Adjusted Metrics an adjustment for the costs of the integration charged to earnings in the fourth quarter of fiscal 2023 which were approximately $7.0 million, net of tax and non-controlling interest.

($ in millions, except per share amounts)	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022	52 Weeks Ended May 1, 2021	2023 Compared to 2022 $ Change	2023 Compared to 2022 % Change
Sales	**$ 30,478.1**	$ 30,162.4	$ 28,268.3	$ 315.7	1.0%
Gross profit	**7,792.7**	7,659.7	7,199.3	133.0	1.7%
Operating income	**1,232.4**	1,363.7	1,299.5	(131.3)	(9.6)%
Adjusted operating income(1)	**1,291.5**	1,363.7	1,299.5	(72.2)	(5.3)%
EBITDA(1)	**2,263.0**	2,330.8	2,143.8	(67.8)	(2.9)%
Adjusted EBITDA(1)	**2,322.1**	2,330.8	2,143.8	(8.7)	(0.4)%
Finance costs, net	**267.0**	282.1	269.4	(15.1)	(5.4)%
Income tax expense	**237.7**	270.3	265.9	(32.6)	(12.1)%
Non-controlling interest	**41.7**	65.5	62.7	(23.8)	(36.3)%
Net earnings(2)	**686.0**	745.8	701.5	(59.8)	(8.0)%
Adjusted net earnings(1)(2)	**727.1**	745.8	701.5	(18.7)	(2.5)%
Basic earnings per share					
Net earnings(2)	**$ 2.65**	$ 2.81	$ 2.61		
Adjusted net earnings(2)	**$ 2.81**	$ 2.81	$ 2.61		
Basic weighted average number of shares outstanding (in millions)	**258.8**	265.2	268.3		
Diluted earnings per share					
Net earnings(2)	**$ 2.64**	$ 2.80	$ 2.60		
Adjusted net earnings(1)(2)	**$ 2.80**	$ 2.80	$ 2.60		
Diluted weighted average number of shares outstanding (in millions)	**259.4**	266.2	269.3		
Dividend per share	**$ 0.66**	$ 0.60	$ 0.52		

	52 Weeks Ended May 6, 2023	53 Weeks Ended May 7, 2022	52 Weeks Ended May 1, 2021
Gross margin(1)	**25.6%**	25.4%	25.5%
EBITDA margin(1)	**7.4%**	7.7%	7.6%
Adjusted EBITDA margin(1)	**7.6%**	7.7%	7.6%
Same-store sales(1) growth	**2.3%**	0.0%	4.7%
Same-store sales growth (decline), excluding fuel	**1.5%**	(2.1)%	5.6%
Effective income tax rate	**24.6%**	25.0%	25.8%

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included. Additionally, certain estimated financial impacts associated with the Cybersecurity Event are not reflected in the Adjusted Metrics above as they relate to sales declines which management considers are attributable to the Event, as well as operational effectiveness which temporarily declined during the Event. Management estimates that the impact of these non-adjusted items on operating income and EBITDA to be at least ($20.0) million and the net earnings impact to be at least ($15.0) million.

(2) Attributable to owners of the Company

<u>**Empire Company Limited Consolidated Operating Results**</u>

Sales

Sales for the fiscal year ended May 6, 2023 increased 1.0%, primarily driven by increased fuel sales and benefits from Project Horizon initiatives, including the expansion of FreshCo in Western Canada. This increase was partially offset by the additional week of operations in the prior year, the impact of the pandemic restrictions in place during various stages of the prior year, changing consumer purchasing behaviours as a result of higher food inflation, and the impact of the Cybersecurity Event in the current year.

Gross Profit

Gross profit for the fiscal year ended May 6, 2023 increased by 1.7% primarily as a result of benefits from Project Horizon initiatives, such as the expansion of FreshCo, Voilà and Farm Boy, partially offset by the additional week of operations in fiscal 2022, the Cybersecurity Event and the change in customer purchasing behaviours.

Gross margin for the fiscal year ended May 6, 2023 increased to 25.6% from 25.4% in the prior year. Gross margin was positively impacted by benefits from Project Horizon initiatives offset by the mix impact of lower fuel sales and the Cybersecurity Event. Gross margin, excluding the mix impact of fuel, increased by 43 basis points.

Operating Income

($ in millions)	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022	$ Change
Food retailing	**$ 1,140.1**	$ 1,277.0	$ (136.9)
Investments and other operations:			
Crombie REIT	**77.3**	61.0	16.3
Genstar	**16.5**	32.4	(15.9)
Other operations, net of corporate expenses	**(1.5)**	(6.7)	5.2
	92.3	86.7	5.6
Operating income	**$ 1,232.4**	$ 1,363.7	$ (131.3)
Adjustments:			
Cybersecurity Event(1)	**$ 45.8**	$ -	$ 45.8
Grocery Gateway Integration(1)	**13.3**	-	13.3
	59.1	-	59.1
Adjusted operating income(1)	**$ 1,291.5**	$ 1,363.7	$ (72.2)

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included. Additionally, certain estimated financial impacts associated with the Cybersecurity Event are not reflected in the adjusted metric above as it relates to sales declines which management considers are attributable to the Event, as well as operational effectiveness which temporarily declined during the Event. Management estimates that the impact of this non-adjusted item on operating income to be at least ($20.0) million.

For the fiscal year ended May 6, 2023, operating income from the Food retailing segment decreased mainly due to higher selling and administrative expense and a decrease in other income (driven by $47.0 million of lease terminations in the prior year), partially offset by higher sales and gross profit. Selling and administrative expenses increased primarily as a result of investments in Project Horizon initiatives (including the expansion of Voilà, Farm Boy and FreshCo) as well as higher depreciation, the Cybersecurity Event and increased project costs, partially offset by one less week of operations in the current year, resulting in a reduction of retail labour costs and other variable operating expenses.

For the fiscal year ended May 6, 2023, operating income from the Investments and other operations segment increased primarily as a result of higher equity earnings from Crombie Real Estate Investment Trust ("Crombie REIT"), mainly due to increased sales of properties, partially offset by lower equity earnings from Genstar as a result of higher property sales in the prior year.

EBITDA

($ in millions)		52 Weeks Ended May 6, 2023		53 Weeks Ended May 7, 2022		$ Change
EBITDA	**$**	**2,263.0**	$	2,330.8	$	(67.8)
Adjustments:						
Cybersecurity Event[1]		**45.8**		-		45.8
Grocery Gateway Integration[1]		**13.3**		-		13.3
		59.1		-		59.1
Adjusted EBITDA[1]	**$**	**2,322.1**	$	2,330.8	$	(8.7)

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included. Additionally, certain estimated financial impacts associated with the Cybersecurity Event are not reflected in the adjusted metric above as it relates to sales declines which management considers are attributable to the Event, as well as operational effectiveness which temporarily declined during the Event. Management estimates that the impact of this non-adjusted item on EBITDA to be at least ($20.0) million.

For the fiscal year ended May 6, 2023, EBITDA decreased to $2,263.0 million from $2,330.8 million in the prior year mainly as a result of the same factors affecting operating income. EBITDA margin decreased to 7.4% from 7.7% in the prior year. Adjusted EBITDA margin decreased to 7.6% from 7.7% in the prior year.

Finance Costs

For the fiscal year ended May 6, 2023, net finance costs decreased primarily due to the early redemption premium of $9.2 million which occurred in the prior year related to the $500 million Series 2013-2 Notes.

Income Taxes

The effective income tax rate for the fiscal year ended May 6, 2023 was 24.6% compared to 25.0% last year. The current year effective tax rate was lower than the statutory rate primarily due to the revaluation of tax estimates, not all of which were recurring, the benefit of consolidated structured entities and capital items that are taxed at lower rates. The effective tax rate in the prior year was lower than the statutory rate primarily due to consolidated structured entities and capital items, both of which are taxed at lower rates, and benefits related to investment tax credits.

Net Earnings

($ in millions, except per share amounts)		52 Weeks Ended May 6, 2023		53 Weeks Ended May 7, 2022		$ Change
Net earnings[1]	**$**	**686.0**	$	745.8	$	(59.8)
EPS (fully diluted)	**$**	**2.64**	$	2.80		
Adjustments (net of income taxes of $18.0):						
Cybersecurity Event[2]		**34.1**		-		34.1
Grocery Gateway Integration[2]		**7.0**		-		7.0
Adjusted net earnings[1][2]	**$**	**727.1**	$	745.8	$	(18.7)
Adjusted EPS (fully diluted)[2]	**$**	**2.80**	$	2.80		
Diluted weighted average number of shares outstanding (in millions)		**259.4**		266.2		

(1) Attributable to owners of the Company.

(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included. Additionally, certain estimated financial impacts associated with the Cybersecurity Event are not reflected in the Adjusted Metrics above as they relate to sales declines which management considers are attributable to the Event, as well as operational effectiveness which temporarily declined during the Event. Management estimates that the impact of this non-adjusted item on net earnings to be at least ($15.0) million.

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 for the fiscal years ended May 6, 2023, May 7, 2022 and May 1, 2021.

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 May 6, 2023**	53 Weeks Ended May 7, 2022	52 Weeks Ended May 1, 2021	2023 Compared to 2022 $ Change	2023 Compared to 2022 % Change
Sales	**$ 30,478.1**	$ 30,162.4	$ 28,268.3	$ 315.7	1.0%
Gross profit	**7,792.7**	7,659.7	7,199.3	133.0	1.7%
Operating income	**1,140.1**	1,277.0	1,251.3	(136.9)	(10.7)%
Adjusted operating income(1)	**1,199.2**	1,277.0	1,251.3	(77.8)	(6.1)%
EBITDA	**2,170.6**	2,243.9	2,094.7	(73.3)	(3.3)%
Adjusted EBITDA(1)	**2,229.7**	2,243.9	2,094.7	(14.2)	(0.6)%
Net earnings(2)	**610.1**	677.9	673.9	(67.8)	(10.0)%
Adjusted net earnings(1)(2)	**651.2**	677.9	673.9	(26.7)	(3.9)%

(1) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included. Additionally, certain estimated financial impacts associated with the Cybersecurity Event are not reflected in the Adjusted Metrics above as they relate to sales declines which management considers are attributable to the Event, as well as operational effectiveness which temporarily declined during the Event. Management estimates that the impact of this non-adjusted item on net earnings to be at least ($15.0) million.
(2) Attributable to owners of the Company.

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

($ in millions)	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022	52 Weeks Ended May 1, 2021
Sales growth	**1.0%**	6.7%	6.3%
Same-store sales growth	**2.3%**	0.0%	4.7%
Same-store sales growth (decline), excluding fuel	**1.5%**	(2.1)%	5.6%
Return on equity(1)	**14.7%**	17.7%	20.8%
Adjusted return on equity	**15.7%**	17.7%	20.8%
Funded debt to total capital(1)	**63.3%**	65.1%	66.6%
Funded debt to adjusted EBITDA(1)	**3.2x**	3.3x	3.3x
Acquisitions of property, equipment, investment property and intangibles	**$ 755.4**	$ 817.2	$ 659.1

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

Investments and Other Operations

($ in millions)	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022	$ Change
Crombie REIT	**$ 77.3**	$ 61.0	$ 16.3
Genstar	**16.5**	32.4	(15.9)
Other operations, net of corporate expenses	**(1.5)**	(6.7)	5.2
	$ 92.3	$ 86.7	$ 5.6

For the fiscal year ended May 6, 2023, operating income from the Investments and other operations segment increased primarily as a result of higher equity earnings from Crombie REIT, mainly due to increased sales of properties, partially offset by lower equity earnings from Genstar as a result of higher property sales in the prior year.

QUARTERLY RESULTS OF OPERATIONS

($ in millions, except per share amounts)	**Fiscal 2023** **Q4** **(13 Weeks)** **May 6, 2023**	Q3[1] (13 Weeks) Feb. 4, 2023	Q2 (13 Weeks) Nov. 5, 2022	Q1 (13 Weeks) Aug. 6, 2022	Fiscal 2022 Q4 (14 Weeks) May 7, 2022	Q3 (13 Weeks) Jan. 29, 2022	Q2 (13 Weeks) Oct. 30, 2021	Q1 (13 Weeks) Jul. 31, 2021
Sales	**$ 7,408.4**	$ 7,489.3	$ 7,642.8	$ 7,937.6	$ 7,840.8	$ 7,377.3	$ 7,318.3	$ 7,626.0
Operating income	**321.6**	232.8	333.9	344.1	333.6	354.8	327.9	347.4
Adjusted Operating income[2]	**328.1**	285.4	333.9	344.1	333.6	354.8	327.9	347.4
EBITDA[3]	**592.3**	492.5	584.2	594.0	586.2	597.5	565.2	581.9
Adjusted EBITDA[2][3]	**598.8**	545.1	584.2	594.0	586.2	597.5	565.2	581.9
Net earnings[4]	**182.9**	125.7	189.9	187.5	178.5	203.4	175.4	188.5
Adjusted net earnings[2][4]	**184.9**	164.8	189.9	187.5	178.5	203.4	175.4	188.5
Per share information, basic								
Net earnings[4]	**$ 0.72**	$ 0.49	$ 0.73	$ 0.72	$ 0.68	$ 0.77	$ 0.66	$ 0.71
Adjusted net earnings[2][4]	**$ 0.73**	$ 0.64	$ 0.73	$ 0.72	$ 0.68	$ 0.77	$ 0.66	$ 0.71
Basic weighted average number of shares outstanding (in millions)	**254.9**	257.9	260.1	262.2	263.0	264.1	265.4	267.0
Per share information, diluted								
Net earnings[4]	**$ 0.72**	$ 0.49	$ 0.73	$ 0.71	$ 0.68	$ 0.77	$ 0.66	$ 0.70
Adjusted net earnings[2][4]	**$ 0.72**	$ 0.64	$ 0.73	$ 0.71	$ 0.68	$ 0.77	$ 0.66	$ 0.70
Diluted weighted average number of shares outstanding (in millions)	**255.4**	258.4	260.6	263.0	264.0	264.9	266.3	268.1

(1) See "Non-GAAP Financial Measures and Financial Metrics" section of the third quarter fiscal 2023 MD&A for a reconciliation of the adjusted metrics presented in the table.

(2) See "Non-GAAP Financial Measures & Financial Metrics" section of this MD&A for a description of the types of costs included. Additionally, certain estimated financial impacts associated with the Cybersecurity Event are not reflected in the Adjusted Metrics above as they relate to sales declines which management considers are attributable to the Event, as well as operational effectiveness which temporarily declined during the Event. Management estimates that the impact of these non-adjusted items on operating income and EBITDA to be at least ($20.0) million, and the net earnings impact to be at least ($15.0) million.

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

(4) Attributable to owners of the Company.

For the last eight quarters reflected in the table above, results have fluctuated due to the impacts of COVID-19 and the related shift in consumer shopping behaviour which led to fluctuations in sales during fiscal 2021 and fiscal 2022. With the easing of restrictions, sales began to stabilize by fiscal 2022 but continued to trend high and compare favourably to pre-pandemic levels. Results in the fourth quarter of fiscal 2022 were impacted by an additional week of operations. Beginning on May 10, 2021, the Company's results incorporate the results of Longo's.

Sales are affected by fluctuations in inflation. Results are affected by seasonality, in particular during the summer months and over the holidays when retail sales trend higher and can result in stronger operating results. Sales, operating income, EBITDA and net earnings have all been influenced by the Company's strategic investment activities, the competitive environment, cost management initiatives, food prices and general industry trends, adjusted items, as well as 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 audited consolidated financial statements for the fiscal year ended May 6, 2023.

($ in millions)	**13 Weeks Ended May 6, 2023**	14 Weeks Ended May 7, 2022	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022
Cash flows from operating activities	**$ 504.6**	$ 469.5	**$ 1,605.3**	$ 2,107.1
Cash flows used in investing activities	**(148.7)**	(227.0)	**(684.7)**	(891.4)
Cash flows used in financing activities	**(345.2)**	(295.8)	**(1,511.6)**	(1,293.9)
Increase (decrease) in cash and cash equivalents	**$ 10.7**	$ (53.3)	**$ (591.0)**	$ (78.2)

Operating Activities

Cash flows from operating activities for the fourth quarter of fiscal 2023 increased versus prior year primarily as a result of favourable working capital changes, partially offset by lower net earnings due to the additional week of operations in the prior year and higher taxes paid in the current year.

Cash flows from operating activities for the fiscal year ended May 6, 2023 decreased versus prior year primarily as a result of unfavourable working capital changes driven by higher inventory, higher income taxes paid and lower net earnings due to the additional week of operations in the prior year.

Investing Activities

The table below outlines details of investing activities for the relevant periods:

($ in millions)	**13 Weeks Ended May 6, 2023**	14 Weeks Ended May 7, 2022	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022
Increase in equity investments	**$ (1.0)**	$ (83.0)	**$ (3.4)**	$ (124.5)
Acquisitions of property, equipment, investment property and intangibles	**(158.2)**	(205.9)	**(757.7)**	(780.3)
Proceeds on disposal of assets[(1)] and lease terminations	**29.4**	25.5	**48.9**	175.6
Leases and other receivables, net	**(35.5)**	15.7	**(34.8)**	25.4
Other assets and other long-term liabilities	**(3.4)**	(2.1)	**(6.7)**	(28.9)
Business acquisitions	**(2.4)**	(6.0)	**(18.7)**	(242.0)
Payments received for finance subleases	**21.9**	27.3	**84.8**	79.4
Interest received	**0.5**	1.5	**2.9**	3.9
Cash flows used in investing activities	**$ (148.7)**	$ (227.0)	**$ (684.7)**	$ (891.4)

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

Cash used in investing activities for the fourth quarter of fiscal 2023 decreased versus prior year primarily due to the prior year purchase of $83.0 million of Crombie REIT Class B Limited Partnership units ("Class B LP units"). The decrease is partially offset by higher leases and other receivables.

Cash used in investing activities for the fiscal year ended May 6, 2023 decreased versus prior year as a result of the prior year business acquisition of Longo's and the prior year purchase of $124.5 million of Crombie REIT Class B LP units. The decrease is partially offset by lower proceeds on disposal of assets and lease terminations compared to the prior year.

Capital Expenditures

The Company invested $243.1 million and $796.7 million in capital expenditures(1) for the quarter and fiscal year ended May 6, 2023, respectively (2022 – $273.4 million and $767.2 million) including renovations and construction of new stores, investments in advanced analytics technology and other technology systems, FreshCo stores in Western Canada and Voilà CFCs.

For fiscal 2024, capital spend is expected to be approximately $775 million, with approximately half of this investment allocated to renovations and new store expansion, and approximately $50 million allocated toward sustainability initiatives such as refrigeration system upgrades, HVAC system upgrades and other energy efficiency initiatives. The Company is planning to renovate approximately 20% to 25% of the network over the next three years.

(1) Capital expenditures are calculated on an accrual basis and includes acquisitions of property, equipment and investment properties, and additions to intangibles.

Store Network Activity and Square Footage

The table below outlines details of investments by Sobeys in its store network during the quarter and fiscal year ended May 6, 2023 compared to the prior year.

# of stores	**13 Weeks Ended May 6, 2023**	14 Weeks Ended May 7, 2022	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022
Opened/relocated/acquired (1)(2)	**1**	4	**8**	56
Expanded	**-**	1	**1**	2
Rebannered/redeveloped	**1**	1	**3**	8
Closed - pending conversion	-	-	**-**	1
Closed(1)	**9**	12	**21**	40
Opened - FreshCo(3)	**1**	3	**4**	12
Closed - pending conversion to FreshCo(3)	**-**	-	**-**	15
Opened - Farm Boy	**1**	2	**3**	8

(1) Total impact excluding the expansion of Farm Boy and FreshCo.
(2) Includes 36 Longo's stores that were acquired in the first quarter of fiscal 2022.
(3) Specific to converted Western Canada FreshCo stores.

The following table shows Sobeys' square footage changes for the 13 weeks ended May 6, 2023:

Square feet (in thousands)	**13 Weeks Ended May 6, 2023**	**14 Weeks Ended May 7, 2022**
Opened	**1**	**51**
Rebannered/redeveloped	**-**	**(15)**
Expanded	**-**	**7**
Closed	**(33)**	**(48)**
Net change before the impact of the expansion of Farm Boy and FreshCo	**(32)**	**(5)**
Opened - FreshCo(1)	**50**	**131**
Opened - Farm Boy	**30**	**55**
Net change	**48**	**181**

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

At May 6, 2023, Sobeys' retail space totalled 41.9 million square feet, a 0.7% increase compared to 41.6 million square feet at May 7, 2022.

Financing Activities

Cash used in financing activities for the quarter ended May 6, 2023 increased versus prior year due to higher volume of repurchases of Non-Voting Class A shares offset by decreased payments of lease liabilities.

Cash used in financing activities for the fiscal year ended May 6, 2023 increased versus prior year due to the repayment of the $500.0 million Series 2013-2 Notes, partially offset by advances on credit facilities.

Free Cash Flow

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

($ in millions)	**13 Weeks Ended May 6, 2023**	14 Weeks Ended May 7, 2022	$ Change	**52 Weeks Ended May 6, 2023**	53 Weeks Ended May 7, 2022	$ Change
Cash flows from operating activities	**$ 504.6**	$ 469.5	$ 35.1	**$ 1,605.3**	$ 2,107.1	$ (501.8)
Add: proceeds on disposal of assets[1] and lease terminations	**29.4**	25.5	3.9	**48.9**	175.6	(126.7)
Less: interest paid	**(3.4)**	(22.0)	18.6	**(52.0)**	(56.2)	4.2
payments of lease liabilities, net of payments received for finance subleases	**(163.2)**	(218.2)	55.0	**(653.0)**	(635.0)	(18.0)
acquisitions of property, equipment, investment property and intangibles	**(158.2)**	(205.9)	47.7	**(757.7)**	(780.3)	22.6
Free cash flow[2]	**$ 209.2**	$ 48.9	$ 160.3	**$ 191.5**	$ 811.2	$ (619.7)

(1) Proceeds on disposal of assets include property, equipment and investment property.
(2) See “Non-GAAP Financial Measures & Financial Metrics” section of this MD&A.

Free cash flow for the quarter ended May 6, 2023 increased versus prior year primarily as a result of a decrease in payments of lease liabilities, net of payments received for finance subleases, a decrease in acquisitions of property, equipment, investment property and intangibles and an increase in cash flows from operating activities. The increase in cashflow from operating activities is driven by favourable working capital changes, partially offset by lower net earnings and higher income taxes paid.

Free cash flow for the fiscal year ended May 6, 2023 decreased versus prior year primarily as a result of a decrease in cash flows from operating activities and lower proceeds on disposal of assets and lease terminations. The decrease in cash flows from operating activities is driven by unfavourable working capital changes, higher income taxes paid and lower net earnings.

Employee Future Benefit Obligations

For the fiscal year ended May 6, 2023, the Company contributed $11.0 million (2022 - $20.1 million) to its registered defined benefit plans. The Company expects to contribute approximately $17.1 million to these plans in fiscal 2024.

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 6, 2023:

($ in millions)	2024	2025	2026	2027	2028	Thereafter	**Total**
Commitments							
Long-term debt[1]	$ 101.0	$ 8.9	$ 7.1	$ 6.3	$ 323.7	$ 567.2	**$ 1,014.2**
Third party finance leases, as lessee	578.8	568.2	533.7	490.2	439.7	3,027.8	**5,638.4**
Related party finance leases, as lessee	176.7	177.5	178.7	176.9	171.9	1,476.2	**2,357.9**
Non-controlling interest liabilities	73.0	-	1.9	12.5	7.4	240.2	**335.0**
Capital commitments	39.2	68.4	-	-	-	-	**107.6**
Contractual obligations	968.7	823.0	721.4	685.9	942.7	5,311.4	**9,453.1**
Third party finance subleases, as lessor	(87.9)	(83.2)	(76.3)	(69.7)	(62.7)	(310.6)	**(690.4)**
Owned properties operating leases, as lessor	(6.2)	(5.5)	(5.0)	(4.0)	(2.2)	(12.6)	**(35.5)**
Subleased properties operating leases, as lessor	(57.7)	(51.2)	(45.0)	(38.1)	(31.9)	(123.0)	**(346.9)**
Contractual obligations, net	**$ 816.9**	**$ 683.1**	**$ 595.1**	**$ 574.1**	**$ 845.9**	**$ 4,865.2**	**$ 8,380.3**

(1) Principal debt repayments.

For further information on guarantees and commitments, please see Notes 9 and 15 of the Company's audited consolidated financial statements for the fiscal year ended May 6, 2023.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

($ in millions, except per share and ratio calculations)		**May 6, 2023**		May 7, 2022		May 1, 2021
Shareholders' equity, net of non-controlling interest	**$**	**5,200.4**	$	4,991.5	$	4,372.7
Book value per common share[(1)]	**$**	**20.09**	$	18.82	$	16.30
Long-term debt, including current portion	**$**	**1,012.3**	$	1,176.7	$	1,225.3
Long-term lease liabilities, including current portion	**$**	**6,184.6**	$	6,285.4	$	5,908.1
Funded debt to total capital[(1)]		**58.1%**		59.9%		62.0%
Funded debt to adjusted EBITDA[(1)]		**3.1x**		3.2x		3.3x
Adjusted EBITDA to interest expense[(1)]		**8.8x**		8.3x		8.0x
Current assets to current liabilities		**0.8x**		0.8x		0.9x
Total assets	**$**	**16,483.7**	$	16,593.6	$	15,173.9
Total non-current financial liabilities	**$**	**7,289.5**	$	7,220.0	$	7,187.7

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

During fiscal 2023, DBRS Morningstar ("DBRS") upgraded Sobeys' credit rating from BBB (low) to BBB and changed the trend from positive to stable while S&P Global ("S&P") remained unchanged from the prior year. The following table shows Sobeys' credit ratings as at May 6, 2023:

Rating Agency	Credit Rating (Issuer rating)	Trend/Outlook
DBRS	BBB	Stable
S&P	BBB-	Stable

Pursuant to an agreement dated November 3, 2022, Empire amended and restated its senior, unsecured revolving term credit agreement extending the maturity date to November 4, 2027. The principal amount was reduced from $250.0 million to $150.0 million. As of May 6, 2023, the outstanding amount of this facility was $48.8 million (2022 – $47.3 million). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

Pursuant to an agreement dated November 3, 2022, Sobeys amended and restated its $650.0 million senior, unsecured revolving term credit agreement extending the maturity date to November 4, 2027. As of May 6, 2023, the outstanding amount of this facility was $306.9 million (2022 – $ nil) and Sobeys has issued $70.4 million in letters of credit against the facility (2022 – $75.1 million). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

The redemption of the 4.70% Series 2013-2 Notes due August 8, 2023, which was announced in the fourth quarter of fiscal 2022, was completed on June 2, 2022. The total redemption payment of $516.5 million included the remaining aggregate principal balance of $500.0 million and $16.5 million in accrued interest and prepayment costs.

Through the acquisition of Longo's on May 10, 2021, Sobeys acquired their existing $75.0 million demand operating line of credit. As of May 6, 2023, the outstanding amount of the facility was $44.5 million (2022 – $15.1 million). Interest payable on this facility fluctuates with changes in the Canadian prime rate.

The Company believes its cash and cash equivalents on hand as of May 6, 2023, together with approximately $404.4 million in unutilized, aggregate credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring its sources of funds are diversified by term to maturity and source of credit.

For additional information on Empire's long-term debt, see note 15 of the Company's audited consolidated financial statements for the fiscal year ended May 6, 2023.

Shareholders' Equity

The Company's share capital was comprised of the following on May 6, 2023:

Authorized	Number of Shares May 6, 2023	May 7, 2022
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	**745,160,121**	754,605,023
Class B common shares, without par value, voting	**122,400,000**	122,400,000

Issued and outstanding ($ in millions)	Number of Shares	May 6, 2023	May 7, 2022
Non-Voting Class A shares	**155,164,908**	**$ 1,908.2**	$ 2,019.6
Class B common shares	**98,138,079**	**7.3**	7.3
Shares held in trust	**(24,034)**	**(0.8)**	(0.8)
Total		**$ 1,914.7**	$ 2,026.1

The Company's share capital on May 6, 2023 compared to the same period in the last fiscal year is shown in the table below:

(Number of shares)	52 Weeks Ended May 6, 2023	53 Weeks Ended May 7, 2022
Non-Voting Class A shares		
Issued and outstanding, beginning of year	**164,563,680**	167,323,301
Issued during year	**46,130**	3,619,362
Purchased for cancellation	**(9,444,902)**	(6,378,983)
Issued and outstanding, end of year	**155,164,908**	164,563,680
Shares held in trust, beginning of year	**(39,027)**	(46,512)
Issued for future settlement of equity settled plans	**45,396**	7,790
Purchased for future settlement of equity settled plans	**(30,403)**	(305)
Shares held in trust, end of year	**(24,034)**	(39,027)
Issued and outstanding, net of shares held in trust, end of year	**155,140,874**	164,524,653
Class B common shares		
Issued and outstanding, beginning and end of year	**98,138,079**	98,138,079

The outstanding options at May 6, 2023 were granted at prices between $18.70 and $42.60 and expire between June 2023 and June 2030 with a weighted average remaining contractual life of 4.67 years. Stock option transactions during fiscal 2023 and 2022 were as follows:

	Fiscal 2023		Fiscal 2022	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**4,007,326**	**$ 31.33**	4,361,032	$ 27.96
Granted	**471,847**	**40.39**	610,692	42.05
Exercised	**(161,334)**	**26.82**	(936,807)	22.55
Expired	**(6,046)**	**34.58**	(9,582)	26.39
Forfeited	**(88,961)**	**31.56**	(18,009)	37.69
Balance, end of year	**4,222,832**	**$ 32.44**	4,007,326	$ 31.33
Stock options exercisable, end of year	**1,731,502**		1,212,083	

For the fiscal year ended May 6, 2023, the Company paid common dividends of $170.2 million (2022 – $156.8 million) to its common shareholders, representing $0.67 per share (2022 – $0.60 per share) for common shareholders.

As at June 19, 2023, the Company had Non-Voting Class A and Class B common shares outstanding of 154,091,171 and 98,138,079, respectively. Options to acquire 4,339,061 Non-Voting Class A shares were outstanding as of May 6, 2023 (May 7, 2022 – 4,007,326). As at June 19, 2023, options to acquire 4,324,496 Non-Voting Class A shares were outstanding (June 21, 2022 – 3,998,354).

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 TSX Trust Company 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, recorded at cost:

Shares held in trust	**Number of Shares**		**May 6, 2023**		May 7, 2022
Balance, beginning of year	**39,027**	**$**	**0.8**	$	0.9
Purchased	**30,403**		**1.1**		-
Issued	**(45,396)**		**(1.1)**		(0.1)
Balance, end of year	**24,034**	**$**	**0.8**	$	0.8

Normal Course Issuer Bid ("NCIB")

On June 21, 2023, the Company renewed its NCIB by filing a notice of intention with the Toronto Stock Exchange ("TSX") to purchase for cancellation up to 12,600,000 Non-Voting Class A shares ("Class A shares") representing approximately 9.0% of the public float of 139,497,542 Class A shares as of June 19, 2023, subject to regulatory approval. As of June 19, 2023, there were 152,926,775 Class A shares issued and outstanding.

The Company intends to repurchase approximately $400.0 million of Class A shares in fiscal 2024. The purchases will be made through the facilities of the TSX and/or any alternative Canadian trading systems to the extent they are eligible. The price that Empire will pay for any shares will be the market price at the time of acquisition. The Company believes that repurchasing shares at the prevailing market prices from time to time is a worthwhile use of funds and in the best interests of Empire and its shareholders. Purchases under the renewed NCIB may commence on July 2, 2023 and shall terminate no later than July 1, 2024.

Based on the average daily trading volume ("ADTV") of 337,583 shares over the last six months, daily purchases will be limited to 84,395 Class A shares (25% of the ADTV of the Class A shares), other than block purchase exemptions.

The Company has also renewed its automatic share purchase plan with its designated broker allowing the purchase of Class A shares for cancellation under its NCIB during trading black-out periods, subject to regulatory approval.

Under the Company's current NCIB, that commenced on July 2, 2022 and expires on July 1, 2023, the Company received approval from the TSX to purchase up to 10,500,000 Class A shares representing approximately 7.0% of the public float of Class A shares outstanding as of June 17, 2022. As of June 19, 2023, the Company has purchased 10,464,644 shares through the facilities of the TSX at a weighted average price of $36.18 for a total consideration of $378.6 million under the NCIB that commenced July 2, 2022 and expires on July 1, 2023.

Shares purchased during the quarter and year-to-date ended May 6, 2023 compared to the same periods of the previous fiscal year are shown in the table below:

($ in millions, except per share amounts)		**13 Weeks Ended May 6, 2023**		14 Weeks Ended May 7, 2022		**52 Weeks Ended May 6, 2023**		53 Weeks Ended May 7, 2022
Number of shares		**3,110,280**		413,100		**9,444,902**		6,378,983
Weighted average price per share	**$**	**35.91**	$	39.83	**$**	**37.06**	$	39.02
Cash consideration paid	**$**	**111.7**	$	16.5	**$**	**350.0**	$	248.9

ACCOUNTING STANDARDS AND POLICIES

Changes to Accounting Standards Adopted During Fiscal 2023

In May 2020, the IASB issued a package of narrow-scope amendments to three standards (IFRS 3, "Business Combinations"; IAS 16, "Property, Plant and Equipment"; and IAS 37, "Provisions, Contingent Liabilities and Contingent Assets") as well as the IASB's Annual Improvements to IFRS Standards 2018 - 2020. These amendments to existing IFRS standards are to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. These amendments became effective for annual periods beginning on or after January 1, 2022. There was no impact on the Company's financial statements.

Standards, Amendments and Interpretations Issued but not yet Adopted

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1, "Presentation of Financial Statements") to clarify that covenants to be complied with after the reporting date for an entity's right to defer settlement of a liability does not affect the classification of the liability as current or non-current at the reporting date. These narrow-scope amendments aim to improve information an entity provides with regards to the covenants through additional disclosures. These amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company is assessing the potential impact of these narrow-scope amendments.

In September 2022, the IASB issued narrow-scope amendments to IFRS 16, "Leases". These amendments clarify how a seller-lessee subsequently measures the lease liability that arises from a sale and leaseback transaction, the seller-lessee determines "lease payments" and "revised lease payments" in a way that does not result in the seller-lessee recognizing any amount of the gain or loss that relates to the right of use it retains. These amendments only apply to sale and leaseback transactions for which the lease payments include variable lease payments that do not depend on an index or a rate. The amendment is effective for annual reporting periods beginning on or after January 1, 2024 with early adoption permitted. The Company expects no impact from these amendments.

In May 2021, the IASB issued narrow-scope amendments to IAS 12, "Income Taxes". The amendments require deferred tax assets and liabilities to be recognized for transactions that result in both deductible and taxable temporary differences of the same amount at initial recognition. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. There will be no impact on the Company's financial statements from these amendments.

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

- classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- that "settlement" refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

These amendments are effective for annual periods beginning on or after January 1, 2024, with early adoption permitted. The Company is assessing the potential impact of this narrow-scope amendment.

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.

Leases

Estimates and judgments are used in the measurement of lease liabilities and right-of-use assets, with key assumptions related to the determination of discount rates and lease term expectations.

Non-Controlling Interest Put and Call Options

The Company has applied estimates and judgment to the non-controlling interest put and call options the Company entered into as part of business acquisitions. The calculation is an earnings multiple that has various components including estimates of cash flows and discount rates.

Valuation of Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Significant estimation and judgment is required in the determination of (i) estimated inventory provisions due to spoilage and shrinkage occurring between the last physical inventory count and the balance sheet dates; and (ii) 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.

Impairments of Non-Financial Assets

Management assesses impairment of non-financial assets such as investments in associates and joint ventures, goodwill, intangible assets, property and equipment, right-of-use assets 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. 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 18 of the Company's audited consolidated financial statements for the year ended May 6, 2023.

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.

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.

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.

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.

Vendor Allowances

The Company has supply agreements with varying terms for purchase of goods for resale, some of which include volume related allowances, purchase discounts, listing fees and other discounts and allowances. Estimates and judgment are required when the receipt of allowances is conditional on the Company achieving specified performance conditions associated with the purchase of product and determining if these have been met. These include estimates of achieving agreed volume targets based on historical and forecast performance.

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 6, 2023 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 6, 2023 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 5, 2023 and ended May 6, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

RELATED PARTY TRANSACTIONS

The Company enters into related party transactions with Crombie REIT and key management personnel, including ongoing leases and property management agreements. As at May 6, 2023, the Company holds a 41.5% (2022 – 41.5%) ownership interest in Crombie REIT and accounts for its investment using the equity method.

Crombie REIT has instituted a distribution reinvestment plan ("DRIP") whereby Canadian resident REIT unitholders may elect to automatically have their distributions reinvested in additional REIT units. The Company has enrolled in the DRIP to maintain its economic and voting interest in Crombie REIT.

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 totalled approximately $261.3 million (2022 – $213.5 million).

Crombie REIT provides administrative and property management services to the Company on a fee for service basis pursuant to a Management Agreement.

Sobeys, through wholly-owned subsidiaries, engages in property sales and sale leaseback transactions with Crombie REIT, based on fair market values. These transactions consist of the following:

	52 Weeks Ended May 6, 2023			53 Weeks Ended May 7, 2022		
($ in millions)	**Number of properties**	**Cash consideration**	**Pre-tax gains**	Number of properties	Cash consideration	Pre-tax gains
Properties sold and leased back[(1)]	**2**	**$ 17.4**	**$ -**	10	$ 95.6	$ 7.1
Properties sold	**1**	**2.1**	**0.2**	1	2.6	-
Lease modification terminations	**-**	**-**	**-**	3	10.0	22.8
Total	**3**	**$ 19.5**	**$ 0.2**	14	$ 108.2	$ 29.9

(1) May 7, 2022, includes 50% sale leaseback of a distribution centre in which Crombie REIT now owns 100% of the property.

During the fiscal year ended May 6, 2023, Crombie REIT disposed of two properties to third parties (2022 - two properties). These transactions resulted in the reversal of previously deferred pre-tax gains of $6.1 million (2022 - $1.7 million) which has been recognized in other income on the consolidated statements of earnings.

During the fiscal year ended May 6, 2023, Sobeys, through a wholly-owned subsidiary, received $16.5 million (2022 - $19.5 million) for reimbursements of lessor improvements from Crombie REIT. These payments are related to modernization and efficiency improvements of existing properties, and construction allowances.

On January 31, 2022, Crombie REIT announced it had closed a bought-deal public offering of units at a price of $17.45 per unit for aggregate proceeds of $200.0 million. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $83.0 million of Class B LP units to maintain a 41.5% ownership interest in Crombie REIT.

On May 19, 2021, Crombie REIT announced it had closed a bought-deal public offering of units at a price of $16.60 per unit for aggregate proceeds of $100.0 million. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 million of Class B LP units to maintain a 41.5% ownership interest in Crombie REIT.

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 6, 2023**	53 Weeks Ended May 7, 2022
Salaries, bonus and other short-term employment benefits	**$ 14.0**	$ 19.5
Post-employment benefits	**1.5**	2.6
Share-based payments	**14.6**	13.2
Total	**$ 30.1**	$ 35.3

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 provide coverage against certain claims.

CONTINGENCIES

The Company has submitted insurance claims in connection with losses incurred related to the Cybersecurity Event which occurred on November 4, 2022. The amount and timing of receipt for the insurance recoveries are uncertain and subject to approval by the insurance companies. As a result, recoveries will only be recognized on the consolidated statements of earnings when the amount and timing are virtually certain.

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. In order to achieve and sustain superior business performance an Enterprise Risk Management (“ERM”) program has been established within the Company.

As part of the ERM process, the Company identifies, assesses, manages and reports on key risks to the organization and its objectives. Risks are ranked and executive ownership is established in each case. In addition, processes have been put in place to facilitate effective oversight by establishing risk appetite statements, key risk indicators, treatment action plans and dashboards for key risks identified. Key risks have been, and continue to be, embedded in the business and strategy discussions at the Board and/or Committee meetings. Annually, the senior leadership of the Company conducts a regular assessment of the Company’s effectiveness in managing existing/known risks along with an identification and discussion of new and emerging risks.

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. A 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 must be customer and market-driven, be focused on superior execution and have efficient, cost-effective operations. It also must invest in its existing store and e-commerce network as well as its merchandising, marketing and operational execution to evolve its strategic platform to better meet the needs of consumers looking for food options. Sobeys updates branding strategies to remain relevant to customers. Failure to implement a marketing and branding strategy, including evaluating the strategic objectives and having people, processes and systems in place to execute the strategy, could adversely affect Sobeys. The consolidation of industry competitors may also lead to increased competition and loss of market share. 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 Empire’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 Empire.

Business Continuity

The Company may be subject to unexpected or critical 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 leverages an integrated business continuity management framework, including a comprehensive crisis management plan. 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.

Cybersecurity

IT systems are an integral part of the Company's business and are relied on to complete daily and strategic operations. The Company uses various technologies, some of which are managed by third parties, to process, transmit and store electronic information. In addition, the Company facilitates a variety of business processes and activities, including reporting on business and interacting with customers, vendors and employees. These IT systems are subject to an increasing number of complex cyber threats, including cyberattacks, data breaches, employee error or malfeasance, power outages, telecommunication or utility failures, systems failures, service provider failures, natural disasters or other catastrophic events. As the cyber threats evolve and become more sophisticated and complex, the more difficult it is to detect and successfully defend against them. For example, see the discussion of the Cybersecurity Event in the "Business Updates" section. In addition, cyber-security-related vulnerabilities by their very nature may remain undetected for an extended period of time.

The Company actively monitors, manages, and continues to enhance the ability to mitigate cyber risk through a multi-layered security approach. However, there is no assurance that these measures will be successful. If the Company does not effectively manage a reliable IT infrastructure or fails to timely identify or appropriately respond to cybersecurity incidents, then the Company's IT systems could be interrupted, destroyed or shut down completely, which in turn could result in operational disruptions (which may be similar to those experienced in connection with the Cybersecurity Event) or the misappropriation of sensitive data. Depending on the nature and scope of a cybersecurity incident, it could lead to the compromise of confidential information, improper access to Company systems and networks, manipulation or destruction of data, operational disruptions and exposure to liability.

The Company has implemented security measures with respect to systems protection, employee training, and business continuity and contingency planning. A disruption to the Company's systems or a breach of sensitive information may negatively impact the Company's operations and financial position, damage its reputation, reduce its competitive advantage and reduce the ability to achieve its strategic objectives and/or the trading price of the Non-Voting Class A shares.

Data Protection and 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, external intrusions on information systems or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches or inappropriate disclosure, leaks of sensitive information or system disruptions. 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. In addition, personal health information is collected in order to provide pharmacy, benefits administration and home health care services to customers. Any failure to maintain privacy of customer and/or Company 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, data and information management risk is managed through a multi layered security approach involving software tools based controls, policies, standards and procedures pertaining to security access, system development, change management and problem and incident management.

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, and provision of pharmacy products and related services. Such liabilities may arise in relation to the storage, distribution, display and dispensing 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 and a smaller portion from pharmaceutical products. 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 or pharmaceutical products. Such an event could materially affect Sobeys' financial performance. Procedures are in place to manage food and pharmaceutical crises, should they occur. These procedures are intended to identify risks, provide clear communication to teammates and consumers and ensure that potentially harmful products are removed from sale immediately.

Sobeys has food safety procedures and programs which address safe food handling and preparation standards. Similarly, provincial pharmacy standards and regulations are strictly followed, supported by robust internal policies and procedures to help mitigate risk along with a comprehensive reporting and follow up system to quickly manage and contain any incidents. On a monthly basis the Executive team is updated on food safety and pharmacy risks. However, there can be no assurance that such measures will prevent the occurrence of any such product contamination or safety incident.

Supply Chain Disruptions Including Impacts of Climate Change

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. The Company's distribution and supply chain could be negatively impacted by over reliance on key vendors, consolidation of facilities, disruptions due to severe weather conditions, natural disasters, climate change driven disruptions or other catastrophic events, failure to manage costs and inventories, and geopolitical disruptions. A failure to develop competitive new products, deliver high-quality products and 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, decreasing competitive advantage. 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 the Company's expectations and should the Company 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.

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, the capacity and capability of key resources to both execute and deliver key strategic initiatives while also sustaining and supporting the on-going business operations.

Environmental

The Company operates its business locations across the country, including retail stores, distribution centres and fuel sites, and is subject to environmental risks associated with the contamination of such properties and facilities. 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. The Company also operates refrigeration equipment in its stores and distribution centres. These systems contain refrigerant gases which could be released if equipment fails or leaks.

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. Failure to properly manage any of these environmental risks could adversely affect the reputation, operations or financial performance of the Company.

The Company is subject to legislation that imposes liabilities on retailers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. There is a risk that the Company will be subject to increased costs associated with these laws.

Environmental Regulation

Environmental legislation has evolved in a manner that has resulted in stricter standards and enforcement, larger fines and liability and increased capital expenditures and operating costs. The environmental issues affecting the Company's operations include extended producer responsibility on plastics and packaging, electricity consumption, fossil fuel use in the transport of goods, air pollution laws and regulations, regulations relating to climate change, hazardous waste regulation, and restrictions against greenhouse gas emissions. The discharge of pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production activities that could adversely affect the Company's financial condition, results of operations or prospects. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances that may exist on or under or near any of its properties or that may be produced as a result of its operations. Changes in legislation, including carbon taxes and the implementation of other greenhouse gas reduction initiatives and regulations related to transitioning to a low-carbon and more climate resilient future, could result in additional costs which could have a negative impact on the Company's financial performance if the Company is not able to identify offsetting cost reductions and efficiencies.

Talent, Attraction and Retention

Effective leadership is important to the growth and continued success of the Company. The inability of the Company to properly attract, build talent and retain its teammates with the appropriate skill set and failure to manage and monitor teammates' performance may affect teammate morale, overall reputation and the Company's future performance. The Company develops and delivers training programs at all levels across its various operating regions to improve teammate knowledge and to better serve its customers. The Company also monitors engagement of teammates on a regular basis, and creates plans to address gaps.

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.

Franchisee and Affiliates Relationships

The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchisees and affiliates operate approximately 51% 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.

Labour Union Relationships

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 teammates 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.

Drug Regulation, Legislation and Health Care Reform

The Company currently operates more than 400 in-store and 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 manufacturer allowances. In some provinces, legislation requires the selling price for prescription drugs to third-party insurance plans and cash customers to 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 labelling, marketing, handling, storage and disposal.

Provincial governments and private plans continue to implement measures to manage the cost of their drug plans, the impact of which varies by province and by plan. 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.

The Patented Medicines Prices Review Board ("PMPRB") protects and informs Canadian consumers by regulating the prices of patented medicines sold in Canada and by reporting on pharmaceutical trends. PMPRB is a quasi-judicial body that is part of the Health Portfolio and operates at arm's length from the Minister of Health. Implementation of amendments to the Patented Medicines Regulations originally proposed in 2019, the first substantive updates to the regulations in over 30 years, were delayed due to COVID-19. Since this time there have continued to be more revisions and delays in making changes to the regulations and potential timelines and scale of any impacts are unknown.

While timing and impact are uncertain at this time, pharmaceutical price compression will put pressure on pharmacy funding and pharmacy operating models, and 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.

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 teammates 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 unethical business practices.

Social

Social reform movements bring public awareness to issues through protests and/or media campaigns. Issues that relate to the Company's business include, but are not limited to, diversity, animal welfare, local and ethical sourcing, nutritional labelling and human rights. Oversight of the Company's social strategies and issues management is through the Executive Committee and the Board of Directors. Ineffective action or inaction on social reform matters could adversely affect the Company's reputation or financial performance.

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 teammates 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. Failure to comply with these policies and programs could adversely affect the Company's reputation or financial performance.

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.

Loyalty Program

The Company recently became a co-owner of *Scene*+ and completed a national rollout, in order to provide added value to customers. The decisions made by the partners can adversely affect the reputation and financial operations of the Company. Promotional and other activities related to the operation of the new program must be effectively managed and coordinated to ensure a positive customer perception. Delays in making capital investments necessary to achieve target state will negatively impact the business case. Failure to effectively manage, communicate and promote the loyalty program may negatively impact the Company's reputation.

Economic Environment

Management continues to closely monitor economic conditions, including inflation, foreign exchange rates, interest rates, employment rates and capital markets. Uncertainty in the economic environment could adversely impact demand for the Company's products and services which in turn could adversely affect financial performance. Management believes that although a volatile 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.

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. The Company monitors the respective mix of fixed and variable interest rates to maintain an appropriate level considering economic conditions. There can be no assurance that risk management strategies, if any, undertaken by the Company will be effective.

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.

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.

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 alter 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.

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 non-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.

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.

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. Failure to appropriately allocate capital could alter the Company's growth and adversely affect the financial performance of the Company.

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 3.84% 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.

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 effect on the financial performance of the Company.

The Company participates in various multi-employer pension plans, providing pension benefits to unionized teammates pursuant to provisions in collective bargaining agreements. Approximately 11% of the teammates 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 teammates 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.

Insurance

The Company and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and purchase 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.

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 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 operating income, 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:

- The Cybersecurity Event adjustment includes the impact of incremental direct costs such as inventory shrink, hardware and software restoration costs, legal and professional fees, labour costs and insurance recoveries. Management believes that the Cybersecurity Event adjustment results in a useful economic representation of the underlying business on a comparative basis. The adjustment does not include management's estimate of the full financial impact of the Cybersecurity Event, as it excludes the net earnings impacts related to the estimated decline in sales and operational effectiveness from impacts such as the temporary loss of advanced planning, promotion and fresh item management tools, the temporary closure of pharmacies, and customers' temporary inability to redeem gift cards and loyalty points.

- The Grocery Gateway Integration adjustment includes the impact of the asset write-off related to the grocery gateway name and facility assets, severance, IT project costs and other costs.

- Gross profit is calculated as sales less cost of sales. Management believes cost of sales is a useful metric to monitor profitability on a product-level basis. Gross profit represents a supplementary metric to assess underlying operating performance and profitability.

- Adjusted operating income is operating income excluding certain items to better analyze trends in performance. These items are excluded to allow for better period over period comparison of ongoing operating results. Adjusted operating income is reconciled to operating income in its respective subsection of the "Summary Results – Fourth Quarter" and "Operating Results – Full Year" sections.

- EBITDA is calculated as net earnings before finance costs (net of finance income), income tax expense, depreciation and amortization of intangibles. Management believes EBITDA represents a supplementary metric to assess profitability and measure the Company's underlying ability to generate liquidity through operating cash flows.

The following table reconciles net earnings to EBITDA:

($ in millions)		**13 Weeks Ended May 6, 2023**		14 Weeks Ended May 7, 2022		13 Weeks Ended May 1, 2021
Net earnings	**$**	**187.9**	$	193.4	$	183.3
Income tax expense		**63.5**		58.2		45.0
Finance costs, net		**70.2**		82.0		66.7
Operating income		**321.6**		333.6		295.0
Depreciation		**237.0**		227.8		200.2
Amortization of intangibles		**33.7**		24.8		19.2
EBITDA	**$**	**592.3**	$	586.2	$	514.4

($ in millions)		**52 Weeks Ended May 6, 2023**		53 Weeks Ended May 7, 2022		52 Weeks Ended May 1, 2021
Net earnings	**$**	**727.7**	$	811.3	$	764.2
Income tax expense		**237.7**		270.3		265.9
Finance costs, net		**267.0**		282.1		269.4
Operating income		**1,232.4**		1,363.7		1,299.5
Depreciation		**916.0**		872.3		768.7
Amortization of intangibles		**114.6**		94.8		75.6
EBITDA	**$**	**2,263.0**	$	2,330.8	$	2,143.8

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance. These items are excluded to allow for better period over period comparison of ongoing operating results. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the “Summary Results – Fourth Quarter” and “Operating Results – Full Year” sections.

- Management calculates interest expense as interest expense on financial liabilities measured at amortized cost and interest expense on lease liabilities. Management believes that interest expense represents a true measure of the Company’s debt service expense, without the offsetting finance income.

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

($ in millions)		**13 Weeks Ended May 6, 2023**		14 Weeks Ended May 7, 2022		13 Weeks Ended May 1, 2021
Finance costs, net	**$**	**70.2**	$	82.0	**$**	66.7
Plus: finance income, excluding interest income on lease receivables		**1.7**		2.3		1.7
Less: pension finance costs, net		**(2.7)**		(2.0)		(2.1)
Less: accretion expense on provisions		**(0.3)**		(0.1)		(0.5)
Interest expense	**$**	**68.9**	$	82.2	**$**	65.8

($ in millions)		**52 Weeks Ended May 6, 2023**		53 Weeks Ended May 7, 2022		52 Weeks Ended May 1, 2021
Finance costs, net	**$**	**267.0**	$	282.1	$	269.4
Plus: finance income, excluding interest income on lease receivables		**5.3**		7.3		9.8
Less: pension finance costs, net		**(7.8)**		(7.8)		(8.1)
Less: accretion expense on provisions		**(1.4)**		(1.9)		(2.3)
Interest expense	**$**	**263.1**	$	279.7	$	268.8

- Adjusted net earnings is net earnings, net of non-controlling interest, excluding certain items to better analyze trends in performance. These items are excluded to allow for better period over period comparison of ongoing operating results. Adjusted net earnings is reconciled in its respective subsection of the “Summary Results – Fourth Quarter” and “Operating Results – Full Year” sections.

- 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 and lease terminations, less acquisitions of property, equipment, investment property and intangibles, interest paid and payments of lease liabilities, net of payments received from finance subleases. Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. Free cash flow is reconciled to GAAP measures as reported on the consolidated statements of cash flows, and is presented in the "Free Cash Flow" section of this MD&A.

- Funded debt is all interest-bearing debt, which includes bank loans, bankers' acceptances, long-term debt and long-term lease liabilities. Management believes that funded debt represents the most relevant indicator of the Company's total financial obligations on which interest payments are made.

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

The following table reconciles the Company's funded debt and total capital to GAAP measures as reported on the balance sheets as at May 6, 2023, May 7, 2022 and May 1, 2021, respectively:

($ in millions)		**May 6, 2023**		May 7, 2022		May 1, 2021
Long-term debt due within one year	**$**	**101.0**	$	581.0	$	46.5
Long-term debt		**911.3**		595.7		1,178.8
Lease liabilities due within one year		**563.7**		509.5		490.5
Long-term lease liabilities		**5,620.9**		5,775.9		5,417.6
Funded debt		**7,196.9**		7,462.1		7,133.4
Total shareholders' equity, net of non-controlling interest		**5,200.4**		4,991.5		4,372.7
Total capital	**$**	**12,397.3**	$	12,453.6	$	11,506.1

Food Retailing Segment Reconciliation

The following tables adjust Empire's Food retailing operating income, EBITDA, and net earnings, net of non-controlling interest, for certain items to better analyze trends in performance. These items are excluded to allow for better period over period comparison of ongoing operating results.

($ in millions)		**52 Weeks Ended May 6, 2023**		53 Weeks Ended May 7, 2022		52 Weeks Ended May 1, 2021		2023 Compared to 2022 $ Change
Operating income	**$**	**1,140.1**	$	1,277.0	$	1,251.3	$	(136.9)
Adjustments:								
Cybersecurity Event		**45.8**		-		-		45.8
Grocery Gateway Integration		**13.3**		-		-		13.3
Adjusted operating income	**$**	**1,199.2**	$	1,277.0	$	1,251.3	$	(77.8)

($ in millions)		**52 Weeks Ended May 6, 2023**		53 Weeks Ended May 7, 2022		52 Weeks Ended May 1, 2021		2023 Compared to 2022 $ Change
EBITDA	**$**	**2,170.6**	$	2,243.9	$	2,094.7	$	(73.3)
Adjustments:								
Cybersecurity Event		**45.8**		-		-		45.8
Grocery Gateway Integration		**13.3**		-		-		13.3
Adjusted EBITDA	**$**	**2,229.7**	$	2,243.9	$	2,094.7	$	(14.2)

($ in millions)		**52 Weeks Ended May 6, 2023**		53 Weeks Ended May 7, 2022		52 Weeks Ended May 1, 2021		2023 Compared to 2022 $ Change
Net earnings	**$**	**610.1**	$	677.9	$	673.9	$	(67.8)
Adjustments:								
Cybersecurity Event		**34.1**		-		-		34.1
Grocery Gateway Integration		**7.0**		-		-		7.0
Adjusted net earnings	**$**	**651.2**	$	677.9	$	673.9	$	(26.7)

Financial Metrics

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

- Same-store sales are sales from stores in the same location in both reporting periods. Management believes same-store sales represents a supplementary metric to assess sales trends as it removes the effect of the opening and closure of stores.

- Same-store sales, excluding fuel are sales from stores in the same location in both reporting periods excluding the fuel sales from stores in the same location in both reporting periods. Management believes same-store sales, excluding fuel represents a supplementary metric to assess sales trends as it removes the effect of the opening and closure of stores and the volatility of fuel prices.

- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of profitability and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.

- EBITDA margin is EBITDA divided by sales. Management believes that EBITDA margin is an important indicator of performance and can help management, analysts and investors assess the competitive landscape, promotional environment and cost structure of the industry in which the Company operates. An increasing percentage indicates higher EBITDA as a percentage of sales.

- Adjusted EBITDA margin is adjusted EBITDA divided by sales. Management believes that adjusted EBITDA margin is an important indicator of performance and can help management, analysts and investors assess the competitive landscape, promotional environment and cost structure of the industry in which the Company operates. An increasing percentage indicates higher adjusted EBITDA as a percentage of sales.

- Funded debt to total capital ratio is funded debt divided by total capital. Management believes that the funded debt to total capital ratio represents a measure upon which the Company's changing capital structure can be analyzed over time. An increasing ratio would indicate that the Company is using an increasing amount of debt in its capital structure.

- Funded debt to EBITDA ratio is funded debt divided by trailing four-quarter EBITDA. Management uses this ratio to partially assess the financial condition of the Company. An increasing ratio would indicate that the Company is utilizing more debt per dollar of EBITDA generated.

- EBITDA to interest expense ratio is trailing four-quarter EBITDA divided by trailing four-quarter interest expense. Management uses this ratio to partially assess the coverage of its interest expense on financial obligations. An increasing ratio would indicate that the Company is generating more EBITDA per dollar of interest expense, resulting in greater interest coverage.

- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.

- Return on equity is net earnings for the year attributable to owners of the parent, divided by average shareholders' equity. Management believes return on equity represents a supplementary measure to assess the Company's profitability.

The following table shows the calculation of Empire's book value per common share as at May 6, 2023, May 7, 2022 and May 1, 2021:

($ in millions, except per share information)		**May 6, 2023**		May 7, 2022		May 1, 2021
Shareholders' equity, net of non-controlling interest	**$**	**5,200.4**	$	4,991.5	$	4,372.7
Shares outstanding (basic)		**258.8**		265.2		268.3
Book value per common share	**$**	**20.09**	$	18.82	$	16.30

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 21, 2023
Stellarton, Nova Scotia, Canada