

Correction Notice:

On June 19, 2020, Empire Company Limited refiled its Management's Discussion and Analysis ("MD&A") for the fourth quarter and fiscal year ended May 2, 2020 to correct the following non-material updates:

- Page 9 and 13 – Reduction of quarter and year to date IFRS 16 Earnings Per Share ("EPS") impact by (\$0.02).
- Page 9 – Removed the reference to fuel sales in Gross Profit section.
- Page 16 and 42 – Reduced Food Retailing Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") and Food Retailing Adjusted EBITDA by \$6.1 million.

EMPIRE

COMPANY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FOURTH QUARTER AND FISCAL YEAR ENDED MAY 2, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Empire Company Limited ("Empire" or the "Company") (TSX: EMP.A) and its subsidiaries, including wholly-owned Sobeys Inc. ("Sobeys") for the fourth quarter and fiscal year ended May 2, 2020 compared to the fourth quarter and fiscal year ended May 4, 2019. 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 2, 2020, and the fiscal year ended May 4, 2019. 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 17, 2020, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

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

- The FreshCo expansion in Western Canada and Farm Boy expansion in Ontario, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, and the number, location, feasibility and timing of construction and conversions, all of which may be impacted by the novel coronavirus ("COVID-19" or "pandemic"), construction schedules and permits, the economic environment and labour relations;
- The Company's expectations regarding the implementation and customer launch of its online grocery home delivery service and that it will have a dilutive impact of \$0.05 on adjusted earnings per share in the first quarter of fiscal 2021, which may be impacted by COVID-19, the customer response to the service and the performance of its business partner, Ocado Group plc ("Ocado");
- The Company's anticipation that a percentage of food consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores, which may be impacted by the duration of the shutdown due to COVID-19, the severity of the pandemic on people's health across Canada, the ability for restaurants and hospitality businesses to re-open and resume operations, and the demand for restaurants and hospitality services when they resume;
- The Company's expectation that selling and administrative expenses could increase approximately \$60 million in the first quarter of fiscal 2021 due to additional investments and expenses required to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19, the severity of the pandemic on people's health across Canada, and safety precautions required;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in capital markets;
- The Company's expectation that it will renew its credit facilities before their expiry which may be impacted by availability of debt in the market;

- The Company's plans to purchase for cancellation Non-Voting Class A shares under the normal course issuer bid which may be impacted by market and economic conditions, availability of sellers, changes in laws and regulations, and the results of operations; and
- The Company's expectation that its cash and cash equivalents on hand, unutilized credit facilities and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other short and long-term obligations, all of which could be impacted by changes in the economic environment.

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

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 \$26.6 billion in annual sales and \$14.6 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 127,000 people.

Food Retailing

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

Strategic Focus⁽¹⁾

The Company is preparing to announce its strategy for the next three years in July 2020. The Company's current strategy includes the following elements:

(i) Reset our Foundation

The Company successfully completed its three-year transformation, named Project Sunrise, exceeding management's initial expectations of \$500 million in net benefits.

In the fourth quarter of fiscal 2017, the Company launched Project Sunrise, a three-year transformation intended to simplify organizational structures and reduce costs. The Company realized approximately \$100 million of these benefits during fiscal 2018 through organizational design, strategic sourcing cost reductions and improvements in store operations. In fiscal 2019, the Company realized a further approximate \$200 million of benefits, driven by initial rollouts of category resets and cost reductions in other areas. In fiscal 2020, the Company achieved over \$250 million of in-year benefits, excluding the impact of COVID-19, for a cumulative benefit of over \$550 million, an increase of over \$50 million compared to original projections for the three-year program. These in-year benefits for fiscal 2020 were driven by the completion of the category reset program, continued cost reductions and operational improvements.

(ii) Bolster our Brand

The Company is focused on improving customer connection with its banner brands and differentiating these brands in a highly competitive marketplace. New brand strategies have been developed and launched in-market for Sobeys and Safeway during fiscal 2020. The new FreshCo 2.0 brand has been launched across Ontario and is continuing to be rolled out with each new location opened in Western Canada.

(iii) Win in our Stores

The Company's full service format stores are a key area of focus. Through category resets, a key element of Project Sunrise, the Company has assessed all product categories nationally to ensure stores have the items customers want most. Category resets were completed in the second quarter and savings continued to appear in results throughout fiscal 2020. Management has completed many operational improvements in stores and within the supply chain and expects to continue implementing operational improvements into fiscal 2021. These operational improvements are expected to enhance customer experience through improved execution and better in-stock, spoilage and shrinkage levels, merchandising and marketing.

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

(iv) Enhance Discount

In December 2017, Sobeys announced plans to expand its discount format to Western Canada and expects to convert up to 25% of its 255 Safeway and Sobeys full service format stores in Western Canada to its FreshCo discount format. The Company continues to be on track to open approximately 65 locations within the initial five year time frame.

28 FreshCo locations have been confirmed:

- 17 stores are open and operating as at June 17, 2020:
 - 15 in British Columbia ("B.C.")
 - 2 in Manitoba
- 11 stores are expected to open in fiscal 2021:
 - 4 in Saskatchewan
 - 4 in Manitoba
 - 2 in Alberta
 - 1 in B.C.

Of the 17 stores operating as at June 17, 2020, four were opened subsequent to the end of the quarter.

As at June 17, 2020, five full service format stores in Western Canada remain closed pending conversion to the FreshCo discount banner, four of which were closed in the fourth quarter of fiscal 2020.

All FreshCo stores in Western Canada and Ontario are branded with the new, evolved FreshCo 2.0 look which offers customers a strong discount and value experience.

(v) Fill the Urban Gap

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

On April 27, 2020, the Company began testing *Voilà by Sobeys*, its new online grocery home delivery service for the Greater Toronto Area ("GTA"). The customer launch of *Voilà* was accelerated to meet the rapidly increasing online grocery demand from customers for home delivery. The Company will begin delivering to customers in the month of June in several areas of the GTA and will continue its phased rollout to customers across the GTA over the next several months.

Construction of *Voilà's* second Customer Fulfillment Centre ("CFC") in Montreal was delayed due to the temporary shutdown of non-essential construction in Quebec due to COVID-19. Construction has resumed and the Company is working to make up for these delays and analyzing the impact on its previously disclosed launch date of 2021. This second CFC will support the launch of *Voilà par IGA* which will serve Ottawa and cities in the province of Quebec.

The acquisition of Farm Boy on December 10, 2018 added 26 locations to the store network throughout Ontario with the Company planning to double the store count in five years, mostly in the GTA. Since the date of the acquisition, the Company has opened five additional stores. Of the five stores operating as at June 17, 2020, four were newly constructed and one was converted from an existing Company-owned store. During the third quarter, Farm Boy announced seven additional locations. Farm Boy's private label is a part of *Voilà's* offering, introducing more Canadians to this growing brand.

(vi) Invest in Innovation

The Company is investing in innovation – continuing to put resources in place needed to drive innovation in the business. In line with this commitment to innovation, the Company has developed a roadmap and launched targeted initiatives to leverage advanced analytics and artificial intelligence to drive smarter merchandising decisions, improve store efficiency and deliver more relevant customer communication to accelerate its growth.

Other Significant Items

COVID-19

The recent COVID-19 outbreak has resulted in restrictions by government authorities and the encouragement for Canadians to stay-at-home, leading to increased safety protocols in stores and distribution centres, shifts in consumer demand and consumption, and volatile financial markets. The Company has taken a proactive approach, mobilizing a cross-functional pandemic planning task force with a mandate to monitor, and effectively mitigate, risks posed to employees, customers and the business. Management's top priorities remain the health and safety of employees, customers and communities while maintaining a resilient supply chain to meet the needs of Canadians and supporting charitable organizations. Throughout this period, Empire has moved with urgency to invest in increased safety and sanitization products and procedures to ensure customers and employees are protected while shopping and working in stores. Management is closely monitoring the impact of the pandemic on food retail around the world and continues to learn from best practices.

COVID-19 and related restrictions materially impacted the Company's operating results and financial performance in the fourth quarter of fiscal 2020. Same-store sales growth excluding fuel in the fourth quarter was 18.0%, substantially driven by changing customer shopping patterns throughout the pandemic including a shift in consumption from restaurants and hospitality businesses to grocery stores. Sales were significantly higher in all formats except fuel. Fuel sales for the quarter decreased by approximately 40% due to a combination of lower demand and a sharp decrease in fuel prices. The Company introduced its "Hero Pay" program for frontline employees in stores and distribution centres, increasing employee compensation to reflect the work of employees serving customers. The temporary Hero Pay program was completed on June 13, 2020. The Company also provided frontline and distribution centre employees with a one-time bonus, equal to two weeks of Hero Pay. Gross margin increased in line with the increase in sales volume. Investments in employees and communities, primarily Hero Pay, combined with additional safety and sanitization expenses, increased selling and administrative expenses by approximately \$80 million in the fourth quarter of fiscal 2020, partially offsetting the positive effect of increased sales.

Management had previously expected that capital expenditures in fiscal 2020 would be approximately \$600 million. However, due to the shutdown of non-essential construction in select provinces, several projects were put on hold and as a result, the Company invested \$574.8 million in capital expenditure in fiscal 2020.

The future impact of COVID-19 is uncertain and dependent on the duration, the spread and intensity of the virus, and ultimately, when a vaccine is widely accessible. The Company's balance sheet continues to remain strong with significant free cash flow available. As of May 2, 2020, Empire had \$1,008 million in cash and cash equivalents, and had access to approximately \$761 million in unutilized, aggregate credit facilities that do not expire until fiscal 2023. In addition, non-revolving credit facilities of approximately \$525 million expire at the end of calendar 2020, and the Company anticipates renewing these facilities before their expiry.

Business Acquisition

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

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

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

Store Closure, Conversion and Labour Buyout Costs

In the first quarter of fiscal 2020, the Company expensed \$21.0 million (2019 – \$ nil) in closure and conversion costs. These costs relate to the conversion of ten Safeway locations to FreshCo stores and the conversion of two Company locations to Farm Boy stores. Of the \$21.0 million, \$3.7 million was reversed in the second quarter.

In the prior fiscal year, provisions totalling \$45.0 million were recognized related to store conversions and labour buyouts. Of the \$45.0 million, \$6.1 million was reversed in the second quarter of the current year and an additional \$4.2 million was reversed in the fourth quarter.

The reversals in fiscal 2020 were attributable to revised estimates relating to store conversions and labour buyouts. As a result, the net fiscal 2020 expense was \$7.0 million (2019 – \$45.0 million).

Investments and Other Operations

Empire's Investments and other operations segment, as of May 2, 2020, included:

1. A 41.5% (41.5% fully diluted) equity accounted interest in Crombie Real Estate Investment Trust ("Crombie REIT") (TSX: CRR.UN), an Ontario registered, unincorporated, open-ended real estate investment trust. Crombie REIT is one of the country's leading national retail property landlords with a strategy to own, operate and develop a portfolio of high-quality grocery and pharmacy-anchored shopping centres, freestanding stores and mixed-use developments primarily in Canada's top urban and suburban markets; and

2. A 40.7% equity accounted interest in Genstar Development Partnership, a 48.6% equity accounted interest in Genstar Development Partnership II, a 39.0% equity accounted interest in GDC Investments 4, L.P., a 39.0% equity accounted interest in GDC Investments 6, L.P., a 39.0% equity accounted interest in GDC Investments 7, L.P., a 37.1% equity accounted interest in GDC Investments 8, L.P., and a 49.0% equity accounted interest in The Fraipont Partnership (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States.

OUTLOOK

The pandemic has fundamentally impacted how Canadians shop for food. Canadians are shopping less frequently and with larger basket sizes to reduce exposure to COVID-19. With this shift in shopping behavior, many are gravitating to one-stop-shop grocery stores that meet all their household needs and online grocery.

In Canada, online grocery sales have more than tripled since before COVID-19. Empire's e-commerce businesses in Quebec and B.C. have experienced exponential growth and have septupled sales since the crisis began. Empire's automated centrally picked grocery e-commerce solution is expected to be favourably impacted by the material increase in online grocery penetration. Voilà, powered by Ocado's technology, will have its customer launch in the month of June. It is expected that Voilà will have a dilutive impact of \$0.05 on adjusted earnings per share on the first quarter of fiscal 2021 as it ramps up its operations.

As Canada and the world adapt and progress in these unprecedented times, it is too early to forecast sales in the medium term. Management continues to anticipate a percentage of the consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores.

During the first six weeks of the first quarter of fiscal 2021, Empire's same-store sales growth, excluding fuel, ranged from 9% to 17%, averaging approximately 13%. Growth was slower towards the end of the six week period. The temporary Hero Pay program was completed on June 13, 2020. The Company also provided frontline and distribution centre employees with a one-time bonus, equal to two weeks of Hero Pay. Empire estimates the investment in Hero Pay for the first part of the quarter combined with the cost of maintaining sanitization and safety measures will increase selling and administrative expenses approximately \$60 million in the first quarter of fiscal 2021.

SUMMARY RESULTS – FOURTH QUARTER

(\$ in millions, except per share amounts)	13 Weeks Ended		\$	%
	May 2, 2020	May 4, 2019		
Sales	\$ 7,012.4	\$ 6,220.4	\$ 792.0	12.7%
Gross profit ⁽¹⁾	1,819.5	1,577.5	242.0	15.3%
Operating income	324.3	194.2	130.1	67.0%
Adjusted operating income ⁽¹⁾	328.9	200.3	128.6	64.2%
EBITDA ⁽¹⁾	527.8	300.1	227.7	75.9%
Adjusted EBITDA ⁽¹⁾	527.8	300.1	227.7	75.9%
Finance costs, net	69.0	21.2	47.8	225.5%
Income tax expense	66.5	44.1	22.4	50.8%
Non-controlling interest	11.0	6.8	4.2	61.8%
Net earnings ⁽²⁾	177.8	122.1	55.7	45.6%
Adjusted net earnings ⁽¹⁾⁽²⁾	181.2	126.5	54.7	43.2%

Basic earnings per share

Net earnings ⁽²⁾	\$ 0.66	\$ 0.45
Adjusted net earnings ⁽²⁾	\$ 0.67	\$ 0.47
Basic weighted average number of shares outstanding (in millions)	269.0	271.9

Diluted earnings per share

Net earnings ⁽²⁾	\$ 0.66	\$ 0.45
Adjusted net earnings ⁽²⁾	\$ 0.67	\$ 0.46
Diluted weighted average number of shares outstanding (in millions)	269.7	272.8
Dividend per share	\$ 0.12	\$ 0.11

Consolidated operating results as a % of sales	13 Weeks Ended	
	May 2, 2020	May 4, 2019
Gross margin ⁽¹⁾	25.9%	25.4%
Adjusted operating income	4.7%	3.2%
EBITDA	7.5%	4.8%
Adjusted EBITDA	7.5%	4.8%
Adjusted net earnings ⁽²⁾	2.6%	2.0%

	13 Weeks Ended	
	May 2, 2020	May 4, 2019
Same-store sales ⁽¹⁾ growth	15.0%	3.2%
Same-store sales growth, excluding fuel	18.0%	3.8%
Effective income tax rate	26.0%	25.5%

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

(2) Attributable to owners of the Company.

IFRS 16 Impact

The table below outlines the impact of the adoption of IFRS 16 “Leases” (“IFRS 16”) on certain financial metrics for the quarter ended May 2, 2020. For additional detail on how IFRS 16 impacts the Company, please refer to the “Accounting Standards and Policies” section of this MD&A.

(\$ in millions, except per share amounts)	13 Weeks Ended		Change	Impact of IFRS 16 ⁽¹⁾	Change (excl. IFRS 16)
	May 2, 2020	May 4, 2019			
Operating income	\$ 324.3	\$ 194.2	\$ 130.1	\$ 47.9	\$ 82.2
Adjusted operating income	328.9	200.3	128.6	47.9	80.7
EBITDA	527.8	300.1	227.7	141.2	86.5
Adjusted EBITDA	527.8	300.1	227.7	141.2	86.5
EBITDA margin ⁽²⁾	7.5%	4.8%	2.7%	2.0%	0.7%
Adjusted EBITDA margin ⁽²⁾	7.5%	4.8%	2.7%	2.0%	0.7%
Finance costs, net	69.0	21.2	47.8	50.2	(2.4)
Net earnings ⁽³⁾	177.8	122.1	55.7	(1.6)	57.3
Adjusted net earnings ⁽³⁾	181.2	126.5	54.7	(3.2)	57.9
Adjusted EPS ⁽²⁾⁽⁴⁾ (fully diluted)	0.67	0.46	0.21	(0.01)	0.22

(1) Reflects the impact of changing accounting standards from IAS 17 “Leases” to IFRS 16 in the first quarter of fiscal 2020, including the fourth quarter add back of \$3.5 million (\$2.6 million after tax) in historical straight-line expense under IAS 17.

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

(3) Attributable to owners of the Company.

(4) Earnings per share (“EPS”).

Empire Company Limited Consolidated Operating Results

Empire’s results for the fourth quarter ended May 2, 2020 and the fourth quarter ended May 4, 2019 include Farm Boy operations. All metrics, including same-store sales, include the consolidation of Farm Boy operations.

Sales

Same-store sales for the first weeks of the fourth quarter were strong, reflecting an improving trend that began in the latter half of the third quarter. Starting on February 28, 2020, the Company experienced significantly higher sales in all formats except fuel. Sales further accelerated from March 8, 2020 onward as customers began to stock up in preparation for possible stay-at-home requirements. By March 22, 2020, the sales intensity began to subside, although still significantly above prior year levels. For the two-week period beginning March 8, 2020, same-store sales growth excluding fuel peaked at approximately 50%. Same-store sales growth, excluding fuel and the impact of the Easter period, stabilized at a lower level of approximately 23% for the quarter.

Overall, sales for the quarter ended May 2, 2020 increased by 12.7% driven by the impact of COVID-19 on the food retailing segment, the expansion of FreshCo in Western Canada and inflation. These increases were partially offset by lower fuel sales as a result of COVID-19 and temporary store closures in Western Canada pending their conversion to FreshCo.

Gross Profit

Gross profit for the fourth quarter increased by 15.3% primarily as a result of the impact of COVID-19 on sales and category reset benefits. These increases were partially offset by temporary store closures in Western Canada pending their conversion to FreshCo. Gross margin for the quarter increased to 25.9% from 25.4% last year. The increase was primarily a result of category reset benefits, the effect of COVID-19 sales mix changes between banners, a less promotional environment and higher private label penetration. These positive effects were partially offset by service department closures and regulatory changes impacting the pharmacy business.

Operating Income

(\$ in millions)	13 Weeks Ended		\$ Change
	May 2, 2020	May 4, 2019	
Consolidated operating income:			
Food retailing	\$ 316.7	\$ 164.0	\$ 152.7
Investments and other operations:			
Crombie REIT	6.3	22.9	(16.6)
Genstar	2.3	1.5	0.8
Other operations, net of corporate expenses	(1.0)	5.8	(6.8)
	7.6	30.2	(22.6)
Operating income	\$ 324.3	\$ 194.2	\$ 130.1
Adjustment:			
Intangible amortization associated with the Canada Safeway acquisition	\$ 4.6	\$ 6.1	
	4.6	6.1	(1.5)
Adjusted operating income	\$ 328.9	\$ 200.3	\$ 128.6

For the quarter ended May 2, 2020, operating income increased mainly due to improved earnings from the Food retailing segment as a result of higher sales and margins driven by the impact of COVID-19, category reset benefits and a gain on the surrender of a lease, partially offset by higher selling and administrative expenses. Selling and administrative expenses increased primarily as a result of increased retail labour costs to support the higher level of sales volume. The increased retail labour costs are largely due to the Company's Hero Pay program for frontline employees in stores and distribution centres which increased employee compensation to reflect the heroic work of the Company's employees serving customers and related retail incentive costs. The increases in selling and administrative expenses were partially offset by the implementation of IFRS 16 and cost savings achieved from Project Sunrise.

Operating income from the Investments and other operations segment decreased as a result of reduced equity earnings from Crombie REIT driven by lower gains on disposal of investment properties compared to the prior year. In the fourth quarter of the prior year, Crombie REIT sold a 26 property portfolio that contributed an additional \$8.4 million to the Company's equity earnings from Crombie REIT and \$6.4 million in Other operations, reflecting the reversal of previously deferred gains on disposal on properties previously sold to Crombie REIT.

EBITDA

For the quarter ended May 2, 2020, EBITDA increased to \$527.8 million from \$300.1 million in the prior year mainly as a result of the same factors affecting operating income. Excluding the impact of IFRS 16, EBITDA would have been \$386.6 million, an increase of \$86.5 million. Adjusted EBITDA margin was 7.5%. Excluding the impact of the implementation of IFRS 16, adjusted EBITDA margin increased by 70 basis points over the prior year.

Finance Costs

For the quarter ended May 2, 2020, net finance costs increased primarily due to the impact of lease finance expenses as a result of the implementation of IFRS 16. Excluding the impact of IFRS 16, net finance costs for the quarter would have been \$18.8 million, a decrease of \$2.4 million compared to the prior year.

Income Taxes

The effective income tax rate for the fourth quarter ended May 2, 2020 was 26.0% compared to 25.5% last year. The current quarter effective tax rate was lower than the statutory rate primarily due to favourable tax treatment of capital gains and differing tax rates of various entities. The effective rate in the prior year was lower than the statutory rate due to capital gains on property dispositions and differing tax rates of various entities.

Net Earnings

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

(\$ in millions, except per share amounts)	13 Weeks Ended		\$ Change
	May 2, 2020	May 4, 2019	
Net earnings ⁽¹⁾	\$ 177.8	\$ 122.1	\$ 55.7
EPS (fully diluted)	\$ 0.66	\$ 0.45	
Adjustment (net of income taxes):			
Intangible amortization associated with the Canada Safeway acquisition	3.4	4.4	
	3.4	4.4	(1.0)
Adjusted net earnings ⁽¹⁾	\$ 181.2	\$ 126.5	\$ 54.7
Adjusted EPS (fully diluted)	\$ 0.67	\$ 0.46	
Diluted weighted average number of shares outstanding (in millions)	269.7	272.8	

(1) *Attributable to owners of the Company.*

OPERATING RESULTS – FULL YEAR

(\$ in millions, except per share amounts)	52 Weeks Ended	52 Weeks Ended	52 Weeks Ended	2020 Compared to 2019	
	May 2, 2020	May 4, 2019	May 5, 2018	\$ Change	% Change
Sales	\$ 26,588.2	\$ 25,142.0	\$ 24,214.6	\$ 1,446.2	5.8%
Gross profit	6,633.3	6,083.6	5,900.5	549.7	9.0%
Operating income	1,111.8	652.3	346.5	459.5	70.4%
Adjusted operating income	1,130.1	683.6	601.7	446.5	65.3%
EBITDA	1,892.4	1,069.5	785.7	822.9	76.9%
Adjusted EBITDA	1,892.4	1,076.2	1,014.7	816.2	75.8%
Finance costs, net	279.1	91.6	110.5	187.5	204.7%
Income tax expense	219.9	144.3	56.2	75.6	52.4%
Non-controlling interest	29.3	29.1	20.3	0.2	0.7%
Net earnings ⁽¹⁾	583.5	387.3	159.5	196.2	50.7%
Adjusted net earnings ⁽¹⁾	596.8	410.0	344.3	186.8	45.6%

Basic earnings per share

Net earnings ⁽¹⁾	\$ 2.16	\$ 1.42	\$ 0.59
Adjusted net earnings ⁽¹⁾	\$ 2.21	\$ 1.51	\$ 1.27
Basic weighted average number of shares outstanding (in millions)	270.4	271.9	271.8

Diluted earnings per share

Net earnings ⁽¹⁾	\$ 2.15	\$ 1.42	\$ 0.59
Adjusted net earnings ⁽¹⁾	\$ 2.20	\$ 1.50	\$ 1.27
Diluted weighted average number of shares outstanding (in millions)	271.4	272.6	272.1
Dividend per share	\$ 0.48	\$ 0.44	\$ 0.42

Consolidated operating results as a % of sales	52 Weeks Ended May 2, 2020	52 Weeks Ended May 4, 2019	52 Weeks Ended May 5, 2018
Gross margin	24.9%	24.2%	24.4%
Adjusted operating income	4.3%	2.7%	2.5%
EBITDA	7.1%	4.3%	3.2%
Adjusted EBITDA	7.1%	4.3%	4.2%
Adjusted net earnings ⁽¹⁾	2.2%	1.6%	1.4%

	52 Weeks Ended May 2, 2020	52 Weeks Ended May 4, 2019	52 Weeks Ended May 5, 2018
Same-store sales growth	4.6%	2.8%	0.8%
Same-store sales growth, excluding fuel	5.7%	2.7%	0.5%
Effective income tax rate	26.4%	25.7%	23.8%

(1) Attributable to owners of the Company.

IFRS 16 Impact

The table below outlines the impact of the adoption of IFRS 16 on certain financial metrics for the fiscal year ended May 2, 2020. For additional detail on how IFRS 16 impacts the Company, please refer to the “Accounting Standards and Policies” section of this MD&A.

(\$ in millions, except per share amounts)	52 Weeks Ended		Change	Impact of IFRS 16 ⁽¹⁾	Change (excl. IFRS 16)
	May 2, 2020	May 4, 2019			
Operating income	\$ 1,111.8	\$ 652.3	\$ 459.5	\$ 181.2	\$ 278.3
Adjusted operating income	1,130.1	683.6	446.5	181.2	265.3
EBITDA	1,892.4	1,069.5	822.9	531.0	291.9
Adjusted EBITDA	1,892.4	1,076.2	816.2	531.0	285.2
EBITDA margin	7.1%	4.3%	2.8%	2.0%	0.8%
Adjusted EBITDA margin	7.1%	4.3%	2.8%	2.0%	0.8%
Finance costs, net	279.1	91.6	187.5	189.9	(2.4)
Net earnings ⁽²⁾	583.5	387.3	196.2	(6.2)	202.4
Adjusted net earnings ⁽²⁾	596.8	410.0	186.8	(11.1)	197.9
Adjusted EPS (fully diluted)	2.20	1.50	0.70	(0.04)	0.74

(1) Reflects the impact of changing accounting standards from IAS 17 to IFRS 16 in the first quarter of fiscal 2020, including the fiscal year add back of \$14.0 million (\$10.2 million after tax) in historical straight-line expense under IAS 17.

(2) Attributable to owners of the Company.

Empire Company Limited Consolidated Operating Results

Empire’s results for the fiscal year ended May 2, 2020 fully include Farm Boy operations whereas prior year comparatives include 21 weeks of Farm Boy operations. All metrics, including same-store sales, include the consolidation of Farm Boy operations.

Sales

Sales for the fiscal year ended May 2, 2020 increased by 5.8% driven by the impact of COVID-19, improved performance across the business, the consolidation of a full year of Farm Boy results, the expansion of FreshCo in Western Canada and inflation. These increases were partially offset by temporary store closures in Western Canada pending their conversion to FreshCo, reduced fuel litres sold due to COVID-19 travel restrictions and lower fuel prices.

Gross Profit

Gross profit for the fiscal year ended May 2, 2020 increased by 9.0% primarily as a result of the impact of COVID-19, category reset benefits, the inclusion of a full year of Farm Boy results and increases in sales. These increases were partially offset by temporary store closures in Western Canada pending their conversion to FreshCo. Gross margin for the fiscal year increased to 24.9% from 24.2% last year. The increase was primarily a result of category reset benefits and positive margin rate contributions from the inclusion of Farm Boy results, partially offset by the effect of sales mix between banners.

Operating Income

(\$ in millions)	52 Weeks Ended		\$ Change
	May 2, 2020	May 4, 2019	
Consolidated operating income:			
Food retailing	\$ 1,040.2	\$ 561.8	\$ 478.4
Investments and other operations:			
Crombie REIT	50.7	63.6	(12.9)
Genstar	20.1	23.4	(3.3)
Other operations, net of corporate expenses	0.8	3.5	(2.7)
	71.6	90.5	(18.9)
Operating income	\$ 1,111.8	\$ 652.3	\$ 459.5
Adjustments:			
Intangible amortization associated with the Canada Safeway acquisition	\$ 18.3	\$ 24.6	
Business acquisition costs	-	6.7	
	18.3	31.3	(13.0)
Adjusted operating income	\$ 1,130.1	\$ 683.6	\$ 446.5

Operating income increased for the fiscal year ended May 2, 2020 mainly due to cost savings achieved from Project Sunrise, improved earnings from the Food retailing segment as a result of higher sales and margins driven by COVID-19 and a gain on the surrender of a lease, partially offset by higher selling and administrative expenses. Selling and administrative expenses increased primarily as a result of the inclusion of a full year of Farm Boy results, increased retail labour costs to support the higher levels of sales volume and Hero Pay, retail incentive costs and lower impairment reversals than the prior year. The increases in selling and administrative expenses were partially offset by the implementation of IFRS 16, cost savings achieved from Project Sunrise and the cost of voluntary buyouts of B.C. Safeway employees in the prior year.

Operating income from the Investments and other operations segment decreased for the fiscal year ended May 2, 2020 principally due to a prior year gain on disposal of a 26 property portfolio by Crombie REIT, partially offset by the sale of a 15 property portfolio by Crombie REIT, as subsequently discussed in the "Investment and Other Operations" section.

EBITDA

(\$ in millions)	52 Weeks Ended		\$ Change
	May 2, 2020	May 4, 2019	
EBITDA	\$ 1,892.4	\$ 1,069.5	\$ 822.9
Adjustment:			
Business acquisition costs	-	6.7	
	-	6.7	(6.7)
Adjusted EBITDA	\$ 1,892.4	\$ 1,076.2	\$ 816.2

For the fiscal year ended May 2, 2020, EBITDA increased to \$1,892.4 million from \$1,069.5 million in the prior year mainly as a result of the same factors affecting operating income. Excluding the impact of IFRS 16, EBITDA would have been \$1,361.4 million, an increase of \$291.9 million. Excluding the impact of the implementation of IFRS 16, adjusted EBITDA margin increased by 80 basis points over the prior year.

Finance Costs

For the fiscal year ended May 2, 2020, net finance costs increased primarily due to the impact of lease finance expenses as a result of the implementation of IFRS 16. Excluding the impact of IFRS 16, net finance costs would have been \$89.2 million, a decrease of \$2.4 million compared to the prior year.

Income Taxes

The effective income tax rate for the fiscal year ended May 2, 2020 was 26.4% compared to 25.7% last year. The current year effective rate was lower than the statutory rate primarily due to capital gains on property dispositions and differing tax rates of various entities. The prior year's effective rate was lower than the statutory rate primarily due to capital gains on property dispositions and a decrease in tax liabilities related to unrecognized tax benefits.

Net Earnings

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

(\$ in millions, except per share amounts)	52 Weeks Ended		\$ Change
	May 2, 2020	May 4, 2019	
Net earnings ⁽¹⁾	\$ 583.5	\$ 387.3	\$ 196.2
EPS (fully diluted)	\$ 2.15	\$ 1.42	
Adjustments (net of income taxes):			
Intangible amortization associated with the Canada Safeway acquisition	13.3	17.8	
Business acquisition costs	-	4.9	
	13.3	22.7	(9.4)
Adjusted net earnings ⁽¹⁾	\$ 596.8	\$ 410.0	\$ 186.8
Adjusted EPS (fully diluted)	\$ 2.20	\$ 1.50	
Diluted weighted average number of shares outstanding (in millions)	271.4	272.6	

(1) *Attributable to owners of the Company.*

FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

The following is a review of Empire's Food retailing segment's financial performance, comprising the consolidated results of Sobeys Inc. for the fiscal years ended May 2, 2020, May 4, 2019 and May 5, 2018.

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

(\$ in millions)	52 Weeks Ended	52 Weeks Ended	52 Weeks Ended	2020 Compared to 2019	
	May 2, 2020	May 4, 2019	May 5, 2018	\$ Change	% Change
Sales	\$ 26,588.2	\$ 25,142.0	\$ 24,214.6	\$ 1,446.2	5.8%
Gross profit	6,633.3	6,083.6	5,900.5	549.7	9.0%
Operating income	1,040.2	561.8	273.6	478.4	85.2%
Adjusted operating income	1,058.5	593.1	528.8	465.4	78.5%
EBITDA	1,820.7	978.7	712.5	842.0	86.0%
Adjusted EBITDA	1,820.7	985.4	941.5	835.3	84.8%
Net earnings ⁽¹⁾	528.1	316.5	116.5	211.6	66.9%
Adjusted net earnings ⁽¹⁾	541.4	339.2	301.3	202.2	59.6%

(1) 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, and are set out below.

(\$ in millions)	52 Weeks Ended	52 Weeks Ended	52 Weeks Ended
	May 2, 2020 ⁽¹⁾	May 4, 2019 ⁽¹⁾	May 5, 2018
Sales growth	5.8%	3.8%	1.7%
Same-store sales growth	4.6%	2.8%	0.8%
Same-store sales growth, excluding fuel	5.7%	2.7%	0.5%
Return on equity ⁽²⁾	18.3%	11.6%	5.4%
Net funded debt to net total capital ⁽²⁾	66.3%	32.8%	26.5%
Funded debt to adjusted EBITDA ⁽²⁾	3.8x	2.1x	1.7x
Acquisitions of property, equipment, investment property and intangibles	\$574.8	\$434.6	\$287.8

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

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

Investments and Other Operations

(\$ in millions)	52 Weeks Ended		\$ Change
	May 2, 2020	May 4, 2019	
Crombie REIT	\$ 50.7	\$ 63.6	\$ (12.9)
Genstar	20.1	23.4	(3.3)
Other operations, net of corporate expenses	0.8	3.5	(2.7)
	\$ 71.6	\$ 90.5	\$ (18.9)

For the fiscal year ended May 2, 2020, income from Investments and other operations decreased as a result of reduced equity earnings from Crombie REIT due to lower gains on disposal of investment properties compared to the prior year. Included in the prior year was a disposal of a 26 property portfolio that contributed an additional \$8.4 million to the Company's equity earnings from Crombie REIT and \$6.4 million in Other operations, reflecting reversal of previously deferred gains on disposal on properties previously sold to Crombie REIT. This decrease was partially offset by the sale of a 15 property portfolio by Crombie REIT in the current fiscal year that contributed an additional \$15.1 million to the Company's equity earnings and a \$6.9 million deferred gain recognition. Of the \$6.9 million deferred gain recognition, \$4.6 million was included in Other operations, net of corporate expenses, with the remaining \$2.3 million recognized in Food retailing. Deferred gain recognition relates to the realization of previously deferred gains on properties sold by the Company to Crombie REIT.

QUARTERLY RESULTS OF OPERATIONS

(\$ in millions, except per share amounts)	Fiscal 2020				Fiscal 2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(13 Weeks) May 2, 2020	(13 Weeks) Feb. 1, 2020	(13 Weeks) Nov. 2, 2019	(13 Weeks) Aug. 3, 2019	(13 Weeks) May 4, 2019	(13 Weeks) Feb. 2, 2019	(13 Weeks) Nov. 3, 2018	(13 Weeks) Aug. 4, 2018
Sales	\$ 7,012.4	\$ 6,395.2	\$ 6,436.5	\$ 6,744.1	\$ 6,220.4	\$ 6,247.3	\$ 6,214.0	\$ 6,460.3
Operating income	324.3	235.0	286.4	266.1	194.2	110.0	173.4	174.7
EBITDA ⁽¹⁾	527.8	426.9	477.7	460.0	300.1	214.6	276.1	278.7
Net earnings ⁽²⁾	177.8	120.5	154.6	130.6	122.1	65.8	103.8	95.6
Adjusted net earnings ⁽²⁾	181.2	123.7	158.0	133.9	126.5	72.9	110.4	100.2
Per share information, basic								
Net earnings ⁽²⁾	\$ 0.66	\$ 0.45	\$ 0.57	\$ 0.48	\$ 0.45	\$ 0.24	\$ 0.38	\$ 0.35
Adjusted net earnings ⁽²⁾	\$ 0.67	\$ 0.46	\$ 0.58	\$ 0.49	\$ 0.47	\$ 0.27	\$ 0.40	\$ 0.37
Basic weighted average number of shares outstanding (in millions)	269.0	269.7	271.3	271.8	271.9	271.9	271.8	271.8
Per share information, diluted								
Net earnings ⁽²⁾	\$ 0.66	\$ 0.45	\$ 0.57	\$ 0.48	\$ 0.45	\$ 0.24	\$ 0.38	\$ 0.35
Adjusted net earnings ⁽²⁾	\$ 0.67	\$ 0.46	\$ 0.58	\$ 0.49	\$ 0.46	\$ 0.27	\$ 0.40	\$ 0.37
Diluted weighted average number of shares outstanding (in millions)	269.7	270.6	272.4	272.9	272.8	272.5	272.2	272.3

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

(2) Attributable to owners of the Company.

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

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, net earnings and adjusted net earnings have been influenced by one-time adjustments, other investing activities, the competitive environment, cost management initiatives, food price and general industry trends, and by other risk factors as outlined in the "Risk Management" section.

LIQUIDITY AND CAPITAL RESOURCES

The table below highlights significant cash flow components for the relevant periods. For additional detail, please refer to the consolidated statements of cash flows in the Company's consolidated financial statements for the fiscal year ended May 2, 2020.

(\$ in millions)	13 Weeks Ended			Change	52 Weeks Ended		
	May 2, 2020	May 4, 2019			May 2, 2020	May 4, 2019	Change
Cash flows from operating activities	\$ 887.6	\$ 373.8	\$ 513.8	\$ 2,089.4	\$ 885.6	\$ 1,203.8	
Cash flows used in investing activities	(186.4)	(182.2)	(4.2)	(376.3)	(1,094.0)	717.7	
Cash flows (used in) from financing activities	(230.0)	(65.1)	(164.9)	(1,258.0)	133.8	(1,391.8)	
Increase (decrease) in cash and cash equivalents	\$ 471.2	\$ 126.5	\$ 344.7	\$ 455.1	\$ (74.6)	\$ 529.7	

As a result of the adoption of IFRS 16 in the first quarter of fiscal 2020, lease payments of \$158.2 million and lease payments received for finance subleases of \$19.9 million that were previously classified as cash flows from operating activities have been classified as cash flows used in financing activities and investing activities in the fourth quarter, respectively. For the fiscal year ended May 2, 2020, lease payments of \$610.3 million and lease payments received for finance subleases of \$76.4 million have been classified as cash flows used in financing activities and investing activities, respectively. Prior period comparatives have not been restated.

Operating Activities

Cash flows from operating activities for the fourth quarter and fiscal year ended May 2, 2020 increased as a result of the impact of IFRS 16 as described above. Normalized for the impact of IFRS 16, cash flows from operating activities increased as a result of higher earnings and an increase in non-cash working capital.

Investing Activities

The table below outlines details of investing activities of the Company for the quarter and fiscal year ended May 2, 2020 compared to the quarter and fiscal year ended May 4, 2019:

(\$ in millions)	13 Weeks Ended			Change	52 Weeks Ended		
	May 2, 2020	May 4, 2019			May 2, 2020	May 4, 2019	Change
Acquisitions of property, equipment, investment property and intangibles	\$ (181.3)	\$ (227.1)	\$ 45.8	\$ (617.8)	\$ (434.6)	\$ (183.2)	
Proceeds on disposal of assets ⁽¹⁾ and lease terminations	26.8	28.9	(2.1)	193.1	89.7	103.4	
Loans and other receivables	18.1	6.0	12.1	20.6	12.0	8.6	
Other assets and other long-term liabilities	(17.6)	6.9	(24.5)	4.1	9.2	(5.1)	
Business acquisitions	(13.4)	(0.8)	(12.6)	(19.2)	(778.6)	759.4	
Payments received for finance subleases	19.9	-	19.9	76.4	-	76.4	
Interest received	2.6	3.9	(1.3)	8.0	8.3	(0.3)	
Increase in equity investments	(41.5)	-	(41.5)	(41.5)	-	(41.5)	
Cash flows used in investing activities	\$ (186.4)	\$ (182.2)	\$ (4.2)	\$ (376.3)	\$ (1,094.0)	\$ 717.7	

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

Cash used in investing activities for the fourth quarter increased as a result of the purchase of \$41.5 million of Crombie REIT Class B limited partnership units. This impact was partially offset by lower capital investments partly as a result of COVID-19 and restrictions put in place for non-essential construction in select provinces, and the reclassification of lease payments received for finance subleases under IFRS 16 as described above.

For the fiscal year ended May 2, 2020, cash used in investing activities decreased as a result of the business acquisition of Farm Boy in the prior year, an increase in proceeds on disposal of assets, the reclassification of lease payments received for finance subleases under IFRS 16 as described above and a gain on the surrender of a lease, partially offset by an increase in capital investments and the purchase of Crombie REIT Class B limited partnership units.

Capital Expenditures

The Company invested \$226.6 million and \$574.8 million for the quarter and fiscal year ended May 2, 2020, respectively (2019 – \$227.1 million and \$434.6 million) including renovations, construction of new stores, construction of an e-commerce fulfillment centre and construction of FreshCo locations in Western Canada. The Company had previously expected that capital expenditures⁽¹⁾ in fiscal 2020 would be approximately \$600 million. However, due to the shutdown of non-essential construction in some provinces, several real estate projects were put on hold and as a result, Empire's capital spending for fiscal 2020 reduced to \$575 million, in line with Management's revised estimates released in its COVID-19 crisis update dated April 15, 2020. Cash used in acquisitions of property, equipment, investment property and intangibles reflected in the consolidated statements of cash flows is higher than capital expenditures discussed in this section due to the timing of cash payments.

(1) Capital expenditure is 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 fourth quarter and fiscal year ended May 2, 2020 compared to the prior year.

# of stores	13 Weeks Ended		52 Weeks Ended	
	May 2, 2020	May 4, 2019	May 2, 2020	May 4, 2019
Opened/relocated/acquired ⁽²⁾	11	11	28	37
Expanded	-	-	3	1
Rebanned/redeveloped	-	1	1	5
Closed ⁽²⁾	5	6	25	28
Opened - FreshCo ⁽³⁾	2	3	10	3
Closed - pending conversion to FreshCo ⁽³⁾	4	-	9	7
Opened - Farm Boy	1	-	3	2
Acquired - Farm Boy	-	-	-	26
Closed - pending conversion to Farm Boy	-	-	2	-

(2) Total impact excluding the acquisition of Farm Boy and expansion of FreshCo.

(3) Specific to converted Western Canada FreshCo stores.

The following table shows Sobeys' square footage changes for the quarter and fiscal year ended May 2, 2020:

Square feet (in thousands)	13 Weeks Ended	52 Weeks Ended
	May 2, 2020	May 2, 2020
Opened	94	321
Expanded	-	17
Closed	(27)	(294)
Net change before the impact of the acquisition of Farm Boy & expansion of FreshCo	67	44
Opened - FreshCo ⁽⁴⁾	15	19
Closed - pending conversion to FreshCo ⁽⁴⁾	(135)	(348)
Opened - Farm Boy	29	76
Closed - pending conversion to Farm Boy	-	(51)
Net change	(24)	(260)

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

At May 2, 2020, Sobeys' square footage totalled 39.8 million, a 0.5% decrease compared to 40.0 million square feet at May 4, 2019.

Financing Activities

For the quarter ended May 2, 2020, cash used in financing activities increased due to the reclassification of payments of lease liabilities under IFRS 16 as previously discussed.

For the fiscal year ended May 2, 2020, financing resulted in cash used of \$1,258.0 million compared to cash generated of \$133.8 million in the prior year. The change was attributable to the reclassification of payments of lease liabilities under IFRS 16 as previously discussed, the cash inflow from the \$400.0 million senior, unsecured non-revolving credit facility used to finance part of the Farm Boy acquisition in the prior year, the repayment of \$375.0 million in credit facilities and the repurchase of Non-Voting Class A shares.

Free Cash Flow

Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. The definition of free cash flow was changed in the first quarter of fiscal 2020 to normalize for the impact of IFRS 16 and enable comparability with prior periods. The definition is updated to include the impact of net lease cash payments.

(\$ in millions)	13 Weeks Ended			52 Weeks Ended		
	May 2, 2020	May 4, 2019	Change	May 2, 2020	May 4, 2019	Change
Cash flows from operating activities	\$ 887.6	\$ 373.8	\$ 513.8	\$ 2,089.4	\$ 885.6	\$ 1,203.8
Add: proceeds on disposal of assets ⁽¹⁾ and lease terminations	26.8	28.9	(2.1)	193.1	89.7	103.4
Less: payments of lease liabilities, net of payments received for finance subleases	(138.3)	-	(138.3)	(533.9)	-	(533.9)
Less: acquisitions of property, equipment, investment property and intangibles	(181.3)	(227.1)	45.8	(617.8)	(434.6)	(183.2)
Free cash flow ⁽²⁾	\$ 594.8	\$ 175.6	\$ 419.2	\$ 1,130.8	\$ 540.7	\$ 590.1

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

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

Free cash flow increased for the quarter ended May 2, 2020 as a result of an improvement in working capital due to fluctuations in payables, increased cash earnings and a decrease in capital investments as previously discussed.

Free cash flow increased for the fiscal year ended May 2, 2020 as a result of an improvement in working capital, increased cash earnings and an increase in proceeds on disposal of assets, partially offset by increased capital investments.

Employee Future Benefit Obligations

For the fiscal year ended May 2, 2020, the Company contributed \$18.3 million (2019 – \$19.5 million) to its registered defined benefit plans. The Company expects to contribute approximately \$15.0 million to these plans in fiscal 2021.

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 2, 2020:

(\$ in millions)	2021	2022	2023	2024	2025	Thereafter	Total
Commitments							
Long-term debt ⁽¹⁾	\$ 570.0	\$ 43.6	\$ 8.8	\$ 507.9	\$ 5.3	\$ 544.1	\$ 1,679.7
Third party finance leases, as lessee	473.6	472.7	452.7	414.7	380.5	2,669.3	4,863.5
Related party finance leases, as lessee	152.0	153.3	154.1	155.5	155.5	1,396.3	2,166.7
Contractual obligations	1,195.6	669.6	615.6	1,078.1	541.3	4,609.7	8,709.9
Third party finance subleases, as lessor	(78.2)	(76.7)	(73.5)	(67.6)	(62.6)	(372.8)	(731.4)
Owned properties operating leases, as lessor	(8.2)	(7.8)	(7.4)	(6.4)	(5.0)	(10.0)	(44.8)
Sub-leased properties operating leases, as lessor	(52.4)	(46.5)	(41.5)	(33.4)	(27.6)	(242.5)	(443.9)
Contractual obligations, net	\$ 1,056.8	\$ 538.6	\$ 493.2	\$ 970.7	\$ 446.1	\$ 3,984.4	\$ 7,489.8

(1) Principal debt repayments.

For further information on guarantees and commitments, please see Notes 10 and 16 of the Company's audited annual consolidated financial statements for the fiscal year ended May 2, 2020.

CONSOLIDATED FINANCIAL CONDITION

Key Financial Condition Measures

(\$ in millions, except per share and ratio calculations)	May 2, 2020 ⁽¹⁾	May 2, 2020		May 4, 2019	May 5, 2018
			Impact of IFRS 16		
Shareholders' equity, net of non-controlling interest	\$ 3,924.6	\$ (425.8)	\$	4,003.3	\$ 3,702.8
Book value per common share ⁽²⁾	\$ 14.51	\$ (1.58)	\$	14.72	\$ 13.62
Long-term debt, including current portion	\$ 1,675.2	\$ (29.1)	\$	2,020.9	\$ 1,666.9
Long-term lease liabilities, including current portion	\$ 5,266.2	\$ 5,266.2	\$	-	\$ -
Net funded debt to net total capital ⁽²⁾	60.2%	46.4%		26.8%	21.9%
Funded debt to adjusted EBITDA ⁽²⁾	3.7x	2.4x		1.9x	1.6x
Adjusted EBITDA to interest expense ⁽²⁾	6.8x	(9.1)x		12.4x	10.5x
Current assets to current liabilities ⁽³⁾	0.8x			1.0x	0.8x
Total assets ⁽³⁾	\$ 14,632.9		\$	9,602.4	\$ 8,662.0
Total non-current financial liabilities ⁽³⁾	\$ 6,559.0		\$	2,838.1	\$ 1,929.9

(1) Key Financial Condition Measures are impacted by the implementation of IFRS 16.

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

(3) See "Accounting Standards and Policies" section of this MD&A for the impact of IFRS 16 on the assets and liabilities metrics for fiscal 2020.

During fiscal 2020, Dominion Bond Rating Service ("DBRS") upgraded Sobeys' credit rating from BB (high) with a positive trend to BBB (low) with a stable trend. Standard & Poor's ("S&P") confirmed Sobeys' rating at BB+ and upgraded Sobeys' outlook from stable to positive.

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

The Company has a \$250.0 million senior, unsecured revolving term credit facility with a maturity date of November 4, 2022. As of May 2, 2020, the outstanding amount of the credit facility was \$62.6 million (2019 - \$ nil). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

On June 2, 2017, Sobeys established a senior, unsecured non-revolving credit facility for \$500.0 million. Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates. The facility was fully utilized on August 8, 2018 to repay long-term debt. As of May 2, 2020, \$375.0 million has been repaid on this facility.

On December 5, 2018, Sobeys established a senior, unsecured non-revolving credit facility for \$400.0 million. Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates. The facility was fully utilized on December 10, 2018, with the proceeds used to fund part of the Farm Boy acquisition.

The outstanding non-revolving credit facilities mature in the third quarter of fiscal 2021, and the Company anticipates renewing these facilities before their expiry.

Sobeys has a \$650.0 million senior, unsecured revolving term credit facility with a maturity date of November 4, 2022. As of May 2, 2020, the outstanding amount of the facility was \$ nil (2019 - \$ nil), and Sobeys has issued \$76.4 million in letters of credit against the facility (2019 - \$65.9 million). Interest payable on this facility fluctuates with changes in the Canadian prime rate or bankers' acceptance rates.

The Company believes its cash and cash equivalents on hand, approximately \$761.0 million in unutilized, aggregate credit facilities as of May 2, 2020, and cash generated from operating activities will enable the Company to fund future capital investments, pension plan contributions, working capital, current funded debt obligations and ongoing business requirements. The Company also believes it has sufficient funding in place to meet these requirements and other short and long-term financial obligations. The Company mitigates potential liquidity risk by ensuring its sources of funds are diversified by term to maturity and source of credit.

For additional information on Empire's long-term debt, see Note 16 of the Company's audited annual consolidated financial statements for the fiscal year ended May 2, 2020.

Shareholders' Equity

The Company's share capital was comprised of the following on May 2, 2020:

	Number of Shares		
	May 2, 2020	May 4, 2019	
Authorized			
2002 Preferred shares, par value of \$25 each, issuable in series	991,980,000	991,980,000	
Non-Voting Class A shares, without par value	765,108,266	768,105,849	
Class B common shares, without par value, voting	122,400,000	122,400,000	
Issued and outstanding (\$ in millions)	Number of Shares	May 2, 2020	May 4, 2019
Non-Voting Class A shares	170,971,038	\$ 2,009.1	\$ 2,040.6
Class B common shares	98,138,079	7.3	7.3
Shares held in trust	(163,497)	(3.2)	(5.3)
Total		\$ 2,013.2	\$ 2,042.6

The Company's share capital on May 2, 2020 compared to the same period in the last fiscal year is shown in the table below:

(Number of Shares)	52 Weeks Ended	
	May 2, 2020	May 4, 2019
Non-Voting Class A shares		
Issued and outstanding, beginning of year	173,661,495	173,547,591
Issued during year	307,126	113,904
Purchased for cancellation	(2,997,583)	-
Issued and outstanding, end of year	170,971,038	173,661,495
Shares held in trust, beginning of year	(271,968)	(308,504)
Issued for settlement of equity settled plans	109,620	40,313
Purchased for future settlement of equity settled plans	(1,149)	(3,777)
Shares held in trust, end of year	(163,497)	(271,968)
Issued and outstanding, net of shares held in trust, end of year	170,807,541	173,389,527
Class B common shares		
Issued and outstanding, beginning and end of year	98,138,079	98,138,079

The outstanding options at May 2, 2020 were granted at prices between \$15.60 and \$36.86 and expire between June 2021 and June 2027 with a weighted average remaining contractual life of 5.37 years. Stock option transactions during fiscal 2020 and 2019 were as follows:

	Fiscal 2020		Fiscal 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	4,293,288	\$ 23.31	4,686,155	\$ 22.81
Granted	1,730,178	31.38	800,573	25.97
Exercised	(1,115,115)	24.57	(746,346)	22.30
Expired	(3,525)	30.23	(250,116)	27.49
Forfeited	(219,162)	22.46	(196,978)	20.63
Balance, end of year	4,685,664	\$ 26.03	4,293,288	\$ 23.31
Stock options exercisable, end of year	1,732,433		2,201,160	

For the fiscal year ended May 2, 2020, the Company paid common dividends of \$129.7 million (2019 – \$119.5 million) to its common shareholders. This represents a payment of \$0.48 per share (2019 – \$0.44 per share) for common shareholders.

As at June 16, 2020, the Company had Non-Voting Class A and Class B common shares outstanding of 170,971,038 and 98,138,079, respectively. Options to acquire 4,685,644 Non-Voting Class A shares were outstanding as of May 2, 2020 (May 4, 2019 – 4,293,288). As at June 16, 2020, options to acquire 4,681,690 Non-Voting Class A shares were outstanding (June 26, 2019 – 4,276,914).

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

Shares held in trust	Number of Shares		May 2, 2020		May 4, 2019
Balance, beginning of year	271,968	\$	5.3	\$	6.0
Purchased	1,149		-		0.1
Issued	(109,620)		(2.1)		(0.8)
Balance, end of year	163,497	\$	3.2	\$	5.3

Normal Course Issuer Bid ("NCIB")

In the first quarter of fiscal 2020, the Company announced the establishment of a NCIB effective for one year from July 2, 2019. The NCIB allows for the purchase for cancellation of up to 3.5 million Non-Voting Class A shares ("Class A shares") through the facilities of the Toronto Stock Exchange ("TSX") and alternative trading systems. During the second quarter, the Company entered into an automatic share purchase plan ("ASPP") with its designated broker allowing the purchase of Class A shares for cancellation under its NCIB during trading black-out periods.

In fiscal 2020, the Company purchased in the market for cancellation 2,997,583 Class A shares at a weighted average price of \$33.36 for a total consideration of \$100.0 million.

The Company has renewed its NCIB by filing a notice of intention with the TSX to purchase for cancellation up to 5 million Class A shares representing approximately 3% of the Class A shares outstanding, subject to regulatory approval. The purchases will be made through the facilities of the TSX and/or any alternative trading systems to the extent they are eligible. The price that Empire will pay for any such shares will be the market price at the time of acquisition. Purchases may commence on July 2, 2020 and shall terminate not later than July 1, 2021. Shareholders may obtain a copy of the NCIB notice, without charge, by contacting the Company at investor.relations@empireco.ca.

The Company believes that repurchasing Class A 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.

The average daily trading volume (the "ADTV") of the Class A shares was 632,893 on the TSX over the last six completed calendar months. Accordingly, under the policies of the TSX, Empire is entitled to purchase, during any one trading day up to 158,223 Class A shares (being 25% of the ADTV of the Class A shares). Empire is entitled to purchase a larger amount of Class A shares per calendar week, subject to the maximum number that may be acquired under the NCIB, if the transaction meets the block purchase exception under the TSX rules.

Automatic Share Purchase Plan

Empire has also renewed its ASPP with its designated broker to facilitate repurchases of Empire's Class A shares under its NCIB, subject to regulatory approval.

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

ACCOUNTING STANDARDS AND POLICIES

The audited consolidated financial statements were prepared using the same accounting policies as disclosed in the Company's annual consolidated financial statements for the year ended May 4, 2019 with the exception of the following:

Changes to Accounting Standards Adopted During Fiscal 2020

(i) Leases

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

IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases except for short-term and low-value asset leases. Lessors continue to classify leases as operating or finance leases. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for all leases where the Company is a lessee. The vast majority of right-of-use assets are property related, pertaining to the use of land and buildings. Other leased assets include passenger vehicles, trucks, trailers and IT equipment. The Company transitioned to IFRS 16 using the modified retrospective approach with the cumulative impact of initially applying the new standard recognized in retained earnings on May 5, 2019. Prior period comparatives have not been restated. The Company has recognized taxable and deductible temporary differences arising on the transition to IFRS 16. This has resulted in the recognition of a net deferred tax asset as a result of the balances recognized on transition as at May 5, 2019 included in the transition impacts disclosed.

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

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

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

The Company as a lessee

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

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

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

The Company as a lessor

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

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

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

Sale and leaseback transactions

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

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

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

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

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

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

During the quarter ended May 2, 2020, changes in right-of-use assets are as follows:

(\$ in millions)	13 Weeks Ended May 2, 2020		
	Property	Other	Total
Opening balance as at February 2, 2020	\$ 3,914.0	\$ 47.0	\$ 3,961.0
Additions	153.8	21.4	175.2
Disposals/retirements and other	(6.5)	-	(6.5)
Depreciation	(93.6)	(2.6)	(96.2)
Closing balance as at May 2, 2020	\$ 3,967.7	\$ 65.8	\$ 4,033.5

During fiscal 2020, changes in right-of-use assets are as follows:

(\$ in millions)	52 Weeks Ended May 2, 2020		
	Property	Other	Total
Opening balance as at May 5, 2019	\$ 3,784.7	\$ 16.0	\$ 3,800.7
Additions	568.9	57.2	626.1
Disposals/retirements and other	(32.8)	-	(32.8)
Depreciation	(353.1)	(7.4)	(360.5)
Closing balance as at May 2, 2020	\$ 3,967.7	\$ 65.8	\$ 4,033.5

During the quarter and fiscal year ended May 2, 2020, net finance costs includes \$57.5 million and \$218.2 million, respectively, of finance expense related to lease liabilities and \$6.5 million and \$24.5 million, respectively, of finance income related to finance subleases.

In fiscal 2020, the Company completed sale and leaseback transactions which resulted in a right-of-use adjustment of \$15.4 million.

The following table provides the impact of the adoption of IFRS 16 in the quarter and fiscal year ended May 2, 2020:

Increase/(Decrease) (\$ in millions)	13 Weeks Ended May 2, 2020	52 Weeks Ended May 2, 2020	Description
Other income – adjustment to sale and leaseback transaction	\$ -	\$ (15.4)	Calculated adjustment to right-of-use balance for asset retained by the Company
Net occupancy expense	141.2	546.5	Rent expense removed and recorded as depreciation expense and net finance expense
Depreciation expense	(95.4)	(356.5)	Depreciation expense to right-of-use assets
Intangible amortization	2.1	6.6	Off market lease intangibles part of right-of-use balance
Net finance costs	(50.2)	(189.9)	Lease finance expense net of finance income
Earnings before income taxes	(2.3)	(8.7)	Net pre-tax impact of IFRS 16
Earnings before income taxes excluding sale and leaseback impact	\$ (2.3)	\$ 6.7	Net pre-tax impact of IFRS 16 excluding impact of sale and leaseback transactions

(ii) Uncertainty Over Income Tax Treatments

Effective May 5, 2019, the Company adopted IFRIC 23 “Uncertainty over income tax treatments” which clarifies how to apply the recognition and measurement requirements in IAS 12 “Income taxes” when there is uncertainty related to tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. This adoption did not have a material impact on the Company’s consolidated financial statements.

Critical Accounting Estimates

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

Leases

Estimates and judgments relating to the adoption of IFRS 16, including the measurement of lease liabilities, right-of-use assets, discount rates and lease term expectations used are outlined in the Accounting Standards and Policies section of this MD&A.

Non-Controlling Interest Put and Call Options

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

Impairments of Goodwill and Long-Lived Assets

Management assesses impairment of non-financial assets such as investments in associates and joint ventures, goodwill, intangible assets, property and equipment, 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 ("FVLCD"). The VIU calculations are based on expected future cash flows. When measuring expected future cash flows, management makes key assumptions about future growth of profits which relate to future events and circumstances. Estimation uncertainty relates to assumptions about future operating results and the application of an appropriate discount rate. Actual results could vary from these estimates which may cause significant adjustments to the Company's goodwill or long-lived assets in subsequent reporting periods.

Pension Benefit Plans and Other Benefit Plans

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

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

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

In measuring its defined benefit liability, the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income. The key assumptions are disclosed in Note 18 of the Company's audited annual consolidated financial statements.

Income Taxes

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

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

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.

Supply Agreements

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

Disclosure Controls and Procedures

Management of the Company, which includes the President & Chief Executive Officer (“CEO”) and Executive Vice President & Chief Financial Officer (“CFO”), is responsible for establishing and maintaining Disclosure Controls and Procedures (“DC&P”) to provide reasonable assurance that material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have evaluated the effectiveness of the Company’s DC&P and, based on that evaluation, the CEO and CFO have concluded that the Company’s DC&P was effective as at May 2, 2020 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 2, 2020 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 2, 2020 and ended May 2, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

RELATED PARTY TRANSACTIONS

The Company enters into related party transactions with Crombie REIT and key management personnel, including ongoing leases and property management agreements. The Company holds a 41.5% (2019 – 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, which are measured at exchange amounts, totalled approximately \$188.8 million (2019 – \$206.2 million).

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

During the fiscal year ended May 2, 2020, Sobeys, through a wholly-owned subsidiary, received \$61.8 million for reimbursements of lessor improvements from Crombie REIT. These payments are related to modernization and efficiency improvements of existing properties, and construction allowances. As of May 2, 2020, an additional \$0.5 million is currently receivable from Crombie REIT for these reimbursements.

On February 11, 2020, Crombie REIT announced it had closed a bought-deal public offering of units at a price of \$16.00 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 limited partnership units.

On May 28, 2019, Crombie REIT announced an agreement to sell an 89% interest in a 15 property portfolio to a third party purchaser which closed on October 7, 2019. Sobeys and Crombie REIT entered into lease amending agreements on properties disposed where Sobeys was a lessee to secure longer contractual terms, as well as additional option terms on the sites. As consideration for these amendments, Crombie REIT agreed to pay an aggregate amount to Sobeys over a period of three years. As of May 2, 2020, Sobeys has accrued a total of \$4.3 million in current and long-term receivables related to these amounts.

On August 1, 2019, Sobeys, through a wholly-owned subsidiary, sold 50% of a property to Crombie REIT for cash consideration of \$9.5 million, resulting in a pre-tax gain of \$1.5 million.

On November 28, 2019, Sobeys, through a wholly-owned subsidiary, sold one property to Crombie REIT for cash consideration of \$3.2 million. There was no gain or loss as a result of this sale.

On December 16, 2019, Sobeys, through a wholly-owned subsidiary, sold and leased back 50% of a distribution centre to Crombie REIT for cash consideration of \$95.7 million, resulting in a pre-tax gain of \$9.0 million. Subsequent to this transaction, Crombie REIT owns 100% of the property.

On April 11, 2019, Crombie REIT announced an agreement to sell an 89% interest in a 26 property portfolio to a third party purchaser. Sobeys and Crombie REIT entered into lease amending agreements on properties disposed where Sobeys was a lessee to secure longer contractual terms, as well as additional option terms on the sites. As consideration for these amendments, Crombie REIT agreed to pay an aggregate amount to Sobeys over a period of three years. The lease amending agreements became effective on April 25, 2019, the closing date of the property disposal. As of May 2, 2020, Sobeys has accrued a total of \$3.3 million in current and long-term receivables related to these amounts.

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

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

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 2, 2020	May 4, 2019
Salaries, bonus and other short-term employment benefits	\$ 14.1	\$ 13.4
Post-employment benefits	2.7	3.4
Termination benefits	-	2.8
Share-based payments	9.9	8.6
	\$ 26.7	\$ 28.2

Indemnities

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

CONTINGENCIES

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

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

RISK MANAGEMENT

Through its operating companies and its equity-accounted investments, Empire is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. In order to achieve and sustain superior business performance an Enterprise Risk Management ("ERM") program has been firmly 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 clear 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. Inherently, the 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 comprehensive assessment of the Company's effectiveness in managing existing/known risks along with an identification and discussion of new and emerging risks.

COVID-19 Pandemic

In early January 2020, reports of a novel coronavirus began to emerge from Wuhan, Hubei province in China. As reports of human-to-human transmission surfaced in mid-January, recognizing the risks this posed to human health and global supply chains, the Company rapidly established a task force with a mandate to monitor, assess and recommend mitigation strategies for potential impacts. On March 9, 2020, days before the COVID-19 pandemic was declared by the World Health Organization, the Company activated the crisis response process and protocols to ensure appropriate focus and priority was given to efforts to contain and mitigate threats and coordinate recovery.

The duration and severity of the COVID-19 pandemic is difficult to predict, however the Company is anticipating and preparing for a second and future waves as well as the implications of easing and economic recovery activities at national, regional and local levels. Preparation includes scenario planning, covering a range of contingencies. While the pandemic is ongoing, risks remain relating to continuing operations if there is an inability to ensure health and wellbeing of employees, customers and community health by preventing outbreaks in stores, warehouses and offices. Additional risks include labour availability due to pandemic absenteeism, as well as ensuring continuity of supply of goods for resale and pandemic supplies such as personal protective equipment and sanitization supplies. Increases in the prices of commodities may result in unrecoverable costs.

Competition

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

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 900 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. A failure to maintain geographic diversification to reduce the effects of localized competition could have an adverse impact on Sobeys' operating margins and results of operations. To successfully compete, Sobeys believes it must be customer and market-driven, be focused on superior execution and have efficient, cost-effective operations. It also believes it must invest in its existing store network, as well as its merchandising, marketing and operational execution to evolve its strategic platform to better meet the needs of consumers looking for food options. The Company 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 the Company. 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 Company's financial results and cash flows. A failure by Crombie REIT to maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties or to maintain strategic relationships with existing and potential tenants to help achieve high occupancy levels at each of its properties could adversely affect the Company.

Product Safety and Security

Sobeys is subject to potential liabilities connected with its business operations, including potential liabilities and expenses associated with product defects, food safety and product handling, 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 pharmaceutical products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food 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 employees and consumers and ensure that potentially harmful products are removed from sale immediately. Food and pharmaceutical safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs which address safe food handling and preparation standards. 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 is in place to quickly manage and contain any incidents. However, there can be no assurance that such measures will prevent the occurrence of any such product contamination or safety incident. Insurance may not be sufficient to cover any resulting food safety financial liability and no insurance remedies reputational harm.

Talent, Attraction and Retention

Effective leadership is very important to the growth and continued success of the Company. The Company develops and delivers training programs at all levels across its various operating regions to improve employee knowledge and to better serve its customers. The inability of the Company to properly attract, build talent and retain its employees with the appropriate skill set and failure to manage and monitor employees' performance may affect employee morale, overall reputation and the Company's future performance.

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

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 employees and unions, the renegotiation of collective agreements always presents the risk of labour disruption. The Company has consistently stated it will accept the short-term costs of labour disruption to support a commitment to building and sustaining a competitive cost structure for the long term. Any prolonged or widespread work stoppages or other labour disputes could have an adverse impact on the Company's financial results.

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 53% of Sobeys' retail stores. Sobeys relies on its franchisees, affiliates and corporate store management to successfully execute retail strategies and programs.

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

Technology

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

Information Management, Cyber Security and Data Protection

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, sensitive personal health information is collected in order to provision pharmacy and home health care services to customers. Any failure to maintain privacy of customer information or to comply with applicable privacy laws or regulations could adversely affect the Company's reputation, competitive position and results of operations.

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

Supply Chain

The Company is exposed to potential supply chain disruptions and errors that could result in obsolete merchandise or an excess or shortage of merchandise in its retail store network. The Company's distribution and supply chain could be impacted by over reliance on key vendors and failure to manage costs and inventories. 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.

Business Continuity

The Company may be subject to unexpected events and natural hazards, including severe weather events, interruption of utilities and infrastructure or occurrence of pandemics, which could cause sudden or complete cessation of its day to day operations. The Company has worked to develop an integrated Business Continuity Management framework, including a comprehensive crisis plan. The Company is currently preparing for second and future waves of COVID-19 along with other pandemics that could occur. 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.

Economic Environment

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

Drug Regulation, Legislation and Healthcare Reform

The Company currently operates 351 in-store pharmacies and 74 freestanding pharmacies which are subject to federal, provincial, territorial and local legislation as well as regulations governing the sale of prescription drugs. Changes to reimbursement models used to fund prescription drugs, including the potential implementation of a national pharmacare model or failure to comply with these laws and regulations could have a negative impact on financial performance, operations and reputation. These laws and regulations typically regulate prescription drug coverage for public plans including patient and product eligibility as well as elements of drug pricing and reimbursements including product cost, markup, dispensing fee, distribution allowances and in some provinces the ability to negotiate manufacturers allowances. In some provinces, legislation requires the selling price for prescription drugs to third-party insurance plans and cash customers will not be higher than the price established for the provincial drug plan. In addition to reimbursement, these laws and regulations govern drug approval and distribution, allowable packaging and labeling, marketing, handling, storage and disposal.

In fiscal 2019, provincial governments and private plans continued to implement measures to manage the cost of their drug plans, the impact of which varied by province and by plan. The most significant of these measures implemented April 1, 2018 was the significant price reduction of almost 70 high volume generic drugs which was the result of an agreement between the pan-Canadian Pharmaceutical Alliance and the Canadian Generic Pharmaceutical Association on behalf of the federal, provincial and territorial drug plans. The Council of the Federation, a joint collaboration created by the provincial premiers continues to work on cost reduction initiatives within the pharmaceutical sector many of which are extended to the private sector. The Patented Medicines Pricing Review Board (PMPRB), the independent, quasi-judicial consumer protection agency established by Parliament in 1987 through patent legislation intended to balance stronger patent protection for pharmaceuticals with a mechanism to ensure prices remain reasonable, has new regulations and guidelines slated to come into effect on July 1, 2020. PMPRB will advise all patentees of new median international prices (MIP) based on the new 11 comparator countries by July 31, 2020. PDCI Market Access estimates that there will be an average 20% reduction in patented brand products. Little change in prices is anticipated before December 31, 2020.

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 employees of the Company are required to acknowledge and agree to on a regular basis and the Company maintains an anonymous, confidential whistle blowing hotline. There can be no assurance that these measures will be effective to prevent violations of law or ethical business practices.

Environmental

The Company operates its business locations across the country, including 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.

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 employees who work in its stores, distribution centres and offices. These policies and programs are reviewed regularly by the Human Resources Committee of the Board of Directors.

Real Estate

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

Loyalty Program

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

Product Costs

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

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

Interest Rate Fluctuation

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

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.

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.

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro, the Great British Pound ("GBP") and the United States Dollar ("USD"). USD purchases of products represent approximately 4.8% 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 employees pursuant to provisions in collective bargaining agreements. Approximately 15% of the employees of Sobeys and its franchisees and affiliates participate in these plans. The responsibility of Sobeys, its franchisees, and affiliates to make contributions to these plans is limited to the amounts established in the collective bargaining agreements and other associated agreements, however poor performance of these plans could have a negative effect on the participating employees or could result in changes to the terms and conditions of participation in these plans, which in turn could negatively affect the financial performance of the Company.

Leverage Risk

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

Insurance

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

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

Financial Measures

The intent of non-GAAP Financial Measures is to provide additional useful information to investors and analysts. Non-GAAP Financial Measures should not be considered in isolation or used as a substitute for measures of performance prepared in accordance with GAAP. The Company's definitions of the non-GAAP terms included in this MD&A are as follows:

- Gross profit is calculated as sales less cost of sales. 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 adjustments result in a more comparable economic representation. Adjusted operating income is reconciled to operating income in its respective subsection of the "Summary Results – Fourth Quarter" and "Operating Results – Full Year" sections. Adjusted operating income for the Food Retailing Segment is reconciled to operating income in the "Food Segment Reconciliations" section of this MD&A.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA"), is calculated as net earnings, before finance costs (net of finance income), income tax expense, depreciation and amortization of intangibles. 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		52 Weeks Ended	
	May 2, 2020	May 4, 2019	May 2, 2020	May 4, 2019
Net earnings	\$ 188.8	\$ 128.9	\$ 612.8	\$ 416.4
Income tax expense	66.5	44.1	219.9	144.3
Finance costs, net	69.0	21.2	279.1	91.6
Operating income	324.3	194.2	1,111.8	652.3
Depreciation	186.7	84.7	709.1	333.0
Amortization of intangibles	16.8	21.2	71.5	84.2
EBITDA	\$ 527.8	\$ 300.1	\$ 1,892.4	\$ 1,069.5

- Adjusted EBITDA is EBITDA excluding certain items to better analyze trends in performance. These adjustments result in a more comparable economic representation. Adjusted EBITDA is reconciled to EBITDA in its respective subsection of the "Summary Results – Fourth Quarter" and "Operating Results – Full Year" sections. Adjusted EBITDA for the Food Retailing Segment is reconciled to EBITDA in the "Food Segment Reconciliations" section of this MD&A.
- Management calculates interest expense as interest expense on financial liabilities measured at amortized cost and interest expense on lease liabilities. Management believes that interest expense represents a true measure of the Company's debt service expense, without the offsetting finance income.

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

(\$ in millions)	13 Weeks Ended		52 Weeks Ended	
	May 2, 2020	May 4, 2019	May 2, 2020	May 4, 2019
Finance costs, net	\$ 69.0	\$ 21.2	\$ 279.1	\$ 91.6
Plus: finance income, excluding interest income on lease receivables	3.7	5.3	12.1	12.6
Less: net pension finance costs	(2.2)	(3.1)	(8.9)	(12.0)
Less: accretion expense on provisions	(0.3)	(0.7)	(3.0)	(5.7)
Interest expense	\$ 70.2	\$ 22.7	\$ 279.3	\$ 86.5

- Adjusted net earnings is net earnings, attributable to owners of the Company, excluding certain items to better analyze trends in performance and financial results. These adjustments result in a more comparable economic representation of the underlying business. Adjusted net earnings is reconciled to net earnings in its respective subsection of the “Summary Results – Fourth Quarter” and “Operating Results – Full Year” sections. Adjusted net earnings for the Food Retailing Segment is reconciled to net earnings in the “Food Segment Reconciliations” section of this MD&A.
- Adjusted EPS (fully diluted) is calculated as adjusted net earnings divided by diluted weighted average number of shares outstanding. Management believes adjusted EPS (fully diluted), which excludes items that Management does not consider reflective of the underlying performance of the business, represents a useful metric to better analyze trends in performance on a per share basis.
- Free cash flow is calculated as cash flows from operating activities, plus proceeds on disposal of property, equipment and investment property, less acquisitions of property, equipment, investment property and intangibles. The definition of free cash flow was changed in the first quarter of fiscal 2020 to include the impact of net lease cash payments made. Management uses free cash flow as a measure to assess the amount of cash available for debt repayment, dividend payments and other investing and financing activities. Free cash flow is reconciled to GAAP measures as reported on the consolidated statements of cash flows, and is presented in the “Free Cash Flow” section of this MD&A.
- Funded debt is all interest bearing debt, which includes bank loans, bankers’ acceptances, long-term debt and long-term lease liabilities. Management believes that funded debt represents the most relevant indicator of the Company’s total financial obligations on which interest payments are made.
- Net funded debt is calculated as funded debt less cash and cash equivalents. Management believes that the deduction of cash and cash equivalents from funded debt represents a more accurate measure of the Company’s net financial obligations.
- Net total capital is calculated as funded debt plus shareholders’ equity, net of non-controlling interest, less cash and cash equivalents.

The following table reconciles the Company’s funded debt, net funded debt and net total capital to GAAP measures as reported on the balance sheets as at May 2, 2020, May 4, 2019 and May 5, 2018, respectively:

(\$ in millions)	May 2, 2020	May 4, 2019	May 5, 2018
Long-term debt due within one year	\$ 570.0	\$ 36.5	\$ 527.4
Long-term debt	1,105.2	1,984.4	1,139.5
Lease liabilities due within one year	466.2	-	-
Long-term lease liabilities	4,800.0	-	-
Funded debt	6,941.4	2,020.9	1,666.9
Less: cash and cash equivalents	(1,008.4)	(553.3)	(627.9)
Net funded debt	5,933.0	1,467.6	1,039.0
Total shareholders’ equity, net of non-controlling interest	3,924.6	4,003.3	3,702.8
Net total capital	\$ 9,857.6	\$ 5,470.9	\$ 4,741.8

Food Segment Reconciliations

The following tables adjust Sobeys' contributed operating income, EBITDA, and net earnings, attributable to owners of the Company, for certain items to better analyze trends in performance. These adjustments result in a more comparable economic representation.

(\$ in millions)	52 Weeks Ended		\$
	May 2, 2020	May 4, 2019	
Operating income	\$ 1,040.2	\$ 561.8	\$ 478.4
Adjustments:			
Intangible amortization associated with the Canada Safeway acquisition	18.3	24.6	
Business acquisition costs	-	6.7	
	18.3	31.3	(13.0)
Adjusted operating income	\$ 1,058.5	\$ 593.1	\$ 465.4

(\$ in millions)	52 Weeks Ended		\$
	May 2, 2020	May 4, 2019	
EBITDA	\$ 1,820.7	\$ 978.7	\$ 842.0
Adjustment:			
Business acquisition costs	-	6.7	
	-	6.7	(6.7)
Adjusted EBITDA	\$ 1,820.7	\$ 985.4	\$ 835.3

(\$ in millions)	52 Weeks Ended		\$
	May 2, 2020	May 4, 2019	
Net earnings	\$ 528.1	\$ 316.5	\$ 211.6
Adjustments (net of income taxes):			
Intangible amortization associated with the Canada Safeway acquisition	13.3	17.8	
Business acquisition costs	-	4.9	
	13.3	22.7	(9.4)
Adjusted net earnings	\$ 541.4	\$ 339.2	\$ 202.2

Financial Metrics

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

- Same-store sales are sales from stores in the same location in both reporting periods. Management believes same-store sales represents a supplementary metric to assess sales trends as it removes the effect of the opening and closure of stores.
- Gross margin is gross profit divided by sales. Management believes that gross margin is an important indicator of profitability and can help management, analysts and investors assess the competitive landscape and promotional environment of the industry in which the Company operates. An increasing percentage indicates lower cost of sales as a percentage of sales.
- EBITDA margin is EBITDA divided by sales. Management believes that EBITDA margin is an important indicator of performance and can help management, analysts and investors assess the competitive landscape, promotional environment and cost structure of the industry in which the Company operates. An increasing percentage indicates higher EBITDA as a percentage of sales.
- 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.

- Return on equity, as reported by Sobeys, is net earnings for the year attributable to owners of the parent, divided by average shareholder's equity. Management believes return on equity represents a supplementary measure to assess Sobeys' profitability.
- Net funded debt to net total capital ratio is net funded debt divided by net total capital. Management believes that the net funded debt to net total capital ratio represents a measure upon which the Company's changing capital structure can be analyzed over time. An increasing ratio would indicate that the Company is using an increasing amount of debt in its capital structure.
- Funded debt to adjusted EBITDA ratio is funded debt divided by trailing four-quarter adjusted EBITDA. Management uses this ratio to partially assess the financial condition of the Company. An increasing ratio would indicate that the Company is utilizing more debt per dollar of adjusted EBITDA generated.
- Adjusted EBITDA to interest expense ratio is trailing four-quarter adjusted EBITDA divided by trailing four-quarter interest expense. Management uses this ratio to partially assess the coverage of its interest expense on financial obligations. An increasing ratio would indicate that the Company is generating more adjusted EBITDA per dollar of interest expense, resulting in greater interest coverage.
- Book value per common share is shareholders' equity, net of non-controlling interest, divided by total common shares outstanding.

The following table shows the calculation of Empire's book value per common share as at May 2, 2020, May 4, 2019 and May 5, 2018:

(\$ in millions, except per share information)	May 2, 2020		May 4, 2019		May 5, 2018	
Shareholders' equity, net of non-controlling interest	\$	3,924.6	\$	4,003.3	\$	3,702.8
Shares outstanding (basic)		270.4		271.9		271.8
Book value per common share	\$	14.51	\$	14.72	\$	13.62

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 17, 2020
Stellarton, Nova Scotia, Canada