Empire Company Limited
Consolidated Financial Statements
May 2, 2020

CONTENTS

Independent auditor's report

To the Shareholders of Empire Company Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Empire Company Limited and its subsidiaries (together, the Company) as at May 2, 2020 and May 4, 2019, and its financial performance and its cash flows for the 52 weeks ended May 2, 2020 and May 4, 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at May 2, 2020 and May 4, 2019;
- the consolidated statements of earnings for the 52 weeks ended May 2, 2020 and May 4, 2019;
- the consolidated statements of comprehensive income for the 52 weeks ended May 2, 2020 and May 4, 2019;
- the consolidated statements of changes in shareholders' equity for the 52 weeks ended May 2, 2020 and May 4, 2019;
- the consolidated statements of cash flows for the 52 weeks ended May 2, 2020 and May 4, 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Emphasis of matter – adoption of new accounting standard

We draw attention to note 3(ab)(i) to the consolidated financial statements, which describes the effects of the adoption of IFRS 16, Leases, on the consolidated financial statements. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Donald M. Flinn.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants

Halifax, Nova Scotia
June 17, 2020

Empire Company Limited
Consolidated Balance Sheets
As At
(in millions of Canadian dollars)

	May 2 2020	May 4 2019
ASSETS		
Current		
Cash and cash equivalents	**$ 1,008.4**	$ 553.3
Receivables	**535.3**	444.2
Inventories (Note 4)	**1,489.4**	1,441.8
Prepaid expenses	**113.1**	134.1
Loans and other receivables (Note 5)	**68.4**	18.7
Income taxes receivable	**34.8**	27.9
Assets held for sale (Note 6)	**6.1**	19.5
	3,255.5	2,639.5
Loans and other receivables (Note 5)	**580.8**	70.8
Investments, at equity (Note 7)	**607.5**	589.4
Other assets (Note 8)	**28.7**	43.4
Property and equipment (Note 9)	**2,883.4**	2,911.5
Right-of-use assets (Note 10)	**4,033.5**	-
Investment property (Note 11)	**114.0**	100.0
Intangibles (Note 12)	**968.8**	1,062.0
Goodwill (Note 13)	**1,573.7**	1,571.5
Deferred tax assets (Note 14)	**587.0**	614.3
	$ 14,632.9	$ 9,602.4
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 2,951.9**	$ 2,496.4
Income taxes payable	**23.2**	29.0
Provisions (Note 15)	**48.7**	119.4
Long-term debt due within one year (Note 16)	**570.0**	36.5
Lease liabilities due within one year (Note 10)	**466.2**	-
	4,060.0	2,681.3
Provisions (Note 15)	**54.7**	93.1
Long-term debt (Note 16)	**1,105.2**	1,984.4
Long-term lease liabilities (Note 10)	**4,800.0**	-
Other long-term liabilities (Note 17)	**97.5**	269.0
Employee future benefits (Note 18)	**304.1**	286.1
Deferred tax liabilities (Note 14)	**197.5**	205.5
	10,619.0	5,519.4
SHAREHOLDERS' EQUITY		
Capital stock (Note 19)	**2,013.2**	2,042.6
Contributed surplus	**23.2**	25.2
Retained earnings	**1,872.1**	1,920.8
Accumulated other comprehensive income	**16.1**	14.7
	3,924.6	4,003.3
Non-controlling interest	**89.3**	79.7
	4,013.9	4,083.0
	$ 14,632.9	$ 9,602.4

See accompanying notes to the consolidated financial statements.
On Behalf of the Board

(signed) *"James Dickson"*
Director

(signed) *"Michael Medline"*
Director

Empire Company Limited
Consolidated Statements of Earnings

52 Weeks Ended (in millions of Canadian dollars, except share and per share amounts)	May 2 2020	May 4 2019
Sales	**$ 26,588.2**	$ 25,142.0
Other income (Note 20)	**69.2**	68.3
Share of earnings from investments, at equity (Note 7)	**71.8**	87.9
Operating expenses		
Cost of sales	**19,954.9**	19,058.4
Selling and administrative expenses	**5,662.5**	5,587.5
Operating income	**1,111.8**	652.3
Finance costs, net (Note 22)	**279.1**	91.6
Earnings before income taxes	**832.7**	560.7
Income tax expense (Note 14)	**219.9**	144.3
Net earnings	**$ 612.8**	$ 416.4
Earnings for the year attributable to:		
Non-controlling interest	**$ 29.3**	$ 29.1
Owners of the Company	**583.5**	387.3
	$ 612.8	$ 416.4
Earnings per share (Note 23)		
Basic	**$ 2.16**	$ 1.42
Diluted	**$ 2.15**	$ 1.42
Weighted average number of common shares outstanding, in millions (Note 23)		
Basic	**270.4**	271.9
Diluted	**271.4**	272.6

See accompanying notes to the consolidated financial statements.

Empire Company Limited
Consolidated Statements of Comprehensive Income

52 Weeks Ended (in millions of Canadian dollars)	**May 2 2020**	**May 4 2019**
Net earnings	**$ 612.8**	$ 416.4
Other comprehensive income		
Items that will be reclassified subsequently to net earnings		
Unrealized (losses) gains on derivatives designated as cash flow hedges (net of taxes of $0.4 (2019 - $(0.2)))	**(0.9)**	0.9
Reclassification of gains on derivatives designated as cash flow hedges to earnings (net of taxes of $ nil (2019 - $ nil))	**(0.2)**	-
Share of other comprehensive income of investments, at equity (net of taxes of $(0.5) (2019 - $ nil))	**1.2**	0.2
Exchange differences on translation of foreign operations (net of taxes of $0.5 (2019 - $0.2))	**1.3**	1.1
	1.4	2.2
Items that will not be reclassified subsequently to net earnings		
Actuarial (losses) gains on defined benefit plans (net of taxes of $6.2 (2019 - $(18.0))) (Note 18)	**(21.1)**	48.1
Total comprehensive income	**$ 593.1**	$ 466.7
Total comprehensive income for the year attributable to:		
Non-controlling interest	**$ 29.3**	$ 29.1
Owners of the Company	**563.8**	437.6
	$ 593.1	$ 466.7

See accompanying notes to the consolidated financial statements.

Empire Company Limited **Consolidated Statements of Changes in Shareholders' Equity** **(in millions of Canadian dollars)**	**Capital Stock**	**Contributed Surplus**	**Accumulated Other Comprehensive Income**	**Retained Earnings**	**Total Attributable to Owners of the Company**	**Non-controlling Interest**	**Total Equity**
Balance at May 5, 2018	$ 2,039.5	$ 22.9	$ 12.5	$ 1,627.9	$ 3,702.8	$ 67.0	$ 3,769.8
Dividends declared on common shares	-	-	-	(119.5)	(119.5)	-	(119.5)
Equity based compensation, net	2.4	2.3	-	-	4.7	-	4.7
Shares held in trust, net (Note 19)	0.7	-	-	-	0.7	-	0.7
Capital transactions with structured entities	-	-	-	-	-	(16.2)	(16.2)
Non-controlling interest recognized on business acquisitions	-	-	-	(12.1)	(12.1)	-	(12.1)
Transactions with owners	3.1	2.3	-	(131.6)	(126.2)	(16.2)	(142.4)
Net earnings	-	-	-	387.3	387.3	29.1	416.4
Revaluation of put options	-	-	-	(10.9)	(10.9)	(0.2)	(11.1)
Other comprehensive income	-	-	2.2	48.1	50.3	-	50.3
Total comprehensive income for the year	-	$ -	$ 2.2	$ 424.5	$ 426.7	$ 28.9	$ 455.6
Balance at May 4, 2019	$ 2,042.6	$ 25.2	$ 14.7	$ 1,920.8	$ 4,003.3	$ 79.7	$ 4,083.0
IFRS 16 transition adjustment (Note 3(ab))	**-**	**-**	**-**	**(432.0)**	**(432.0)**	**-**	**(432.0)**
Restated balance as at May 5, 2019	**2,042.6**	**25.2**	**14.7**	**1,488.8**	**3,571.3**	**79.7**	**3,651.0**
Dividends declared on common shares	**-**	**-**	**-**	**(129.7)**	**(129.7)**	**-**	**(129.7)**
Equity based compensation, net	**3.8**	**(2.0)**	**-**	**-**	**1.8**	**-**	**1.8**
Repurchase of capital stock	**(35.3)**	**-**	**-**	**(64.7)**	**(100.0)**	**-**	**(100.0)**
Shares held in trust, net	**2.1**	**-**	**-**	**-**	**2.1**	**-**	**2.1**
Capital transactions with structured entities	**-**	**-**	**-**	**-**	**-**	**(17.0)**	**(17.0)**
Transactions with owners	**(29.4)**	**(2.0)**	**-**	**(194.4)**	**(225.8)**	**(17.0)**	**(242.8)**
Net earnings	**-**	**-**	**-**	**583.5**	**583.5**	**29.3**	**612.8**
Revaluation of put options	**-**	**-**	**-**	**15.3**	**15.3**	**(2.7)**	**12.6**
Other comprehensive loss	**-**	**-**	**1.4**	**(21.1)**	**(19.7)**	**-**	**(19.7)**
Total comprehensive income for the year	**-**	**-**	**1.4**	**577.7**	**579.1**	**26.6**	**605.7**
Balance at May 2, 2020	**$ 2,013.2**	**$ 23.2**	**$ 16.1**	**$ 1,872.1**	**$ 3,924.6**	**$ 89.3**	**$ 4,013.9**

See accompanying notes to the consolidated financial statements.

Empire Company Limited
Consolidated Statements of Cash Flows

52 Weeks Ended (in millions of Canadian dollars)	May 2 2020	May 4 2019
Operations		
Net earnings	**$ 612.8**	$ 416.4
Adjustments for:		
Depreciation	**709.1**	333.0
Income tax expense	**219.9**	144.3
Finance costs, net (Note 22)	**279.1**	91.6
Amortization of intangibles	**71.5**	84.2
Net gain on disposal of assets and lease terminations	**(51.7)**	(48.9)
Impairment (reversals) of non-financial assets, net	**1.9**	(31.3)
Amortization of deferred items	**3.2**	1.8
Equity in earnings (loss) of other entities, net of distributions received	**28.0**	(8.6)
Employee future benefits	**(9.3)**	(8.8)
Increase in long-term lease obligation	**-**	2.8
Decrease in long-term provisions	**(17.7)**	(41.9)
Equity based compensation	**6.2**	6.7
Net change in non-cash working capital	**279.3**	16.5
Income taxes paid, net	**(42.9)**	(72.2)
Cash flows from operating activities	**2,089.4**	885.6
Investment		
Property, equipment and investment property purchases	**(548.8)**	(411.1)
Additions to intangibles	**(69.0)**	(23.5)
Proceeds on disposal of assets and lease terminations	**193.1**	89.7
Loans and other receivables	**20.6**	12.0
Other assets and other long-term liabilities	**4.1**	9.2
Business acquisitions (Note 24)	**(19.2)**	(778.6)
Payments received for finance subleases	**76.4**	-
Interest received	**8.0**	8.3
Increase in equity investments	**(41.5)**	-
Cash flows used in investing activities	**(376.3)**	(1,094.0)
Financing		
Issuance of long-term debt	**80.8**	58.3
Repayments of long-term debt	**(85.2)**	(605.2)
(Repayments) advances on credit facilities, net	**(313.1)**	900.0
Interest paid	**(83.5)**	(90.9)
Payments of lease liabilities (principal portion)	**(392.1)**	-
Payments of lease liabilities (interest portion)	**(218.2)**	-
Repurchases of Non-Voting Class A shares	**(100.0)**	-
Acquisitions of shares held in trust	**-**	(0.1)
Dividends paid, common shares	**(129.7)**	(119.5)
Non-controlling interest	**(17.0)**	(8.8)
Cash flows (used in) from financing activities	**(1,258.0)**	133.8
Increase (decrease) in cash and cash equivalents	**455.1**	(74.6)
Cash and cash equivalents, beginning of year	**553.3**	627.9
Cash and cash equivalents, end of year	**$ 1,008.4**	$ 553.3

See accompanying notes to the consolidated financial statements.

1. Reporting entity

Empire Company Limited ("Empire" or the "Company") is a Canadian company whose key businesses are food retailing and related real estate. The Company is incorporated in Canada and the address of its registered office of business is 115 King Street, Stellarton, Nova Scotia, B0K 1S0, Canada. The consolidated financial statements for the period ended May 2, 2020 include the accounts of Empire, all subsidiary companies, including 100% owned Sobeys Inc. ("Sobeys"), and certain enterprises considered structured entities ("SEs"), where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence and its joint ventures are accounted for using the equity method. As at May 2, 2020, the Company's business operations were conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 27, Segmented Information. The Company's Food retailing business is affected by seasonality and the timing of holidays. Retail sales are traditionally higher in the Company's first quarter. The Company's fiscal year ends on the first Saturday in May.

2. Basis of preparation

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on June 17, 2020.

Basis of measurement
The consolidated financial statements are prepared on the historical cost basis, except the following assets and liabilities which are stated at their fair value: certain financial instruments (including derivatives) at fair value through profit and loss ("FVTPL") and cash settled stock-based compensation plans. Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

Use of estimates and judgments
The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported on the consolidated financial statements and accompanying notes. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Company has applied judgment in its assessment of the appropriateness of consolidation of SEs, the appropriateness of equity accounting for its investments in associates and joint ventures, discount rate, classification of financial instruments, the level of componentization of property and equipment, the determination of cash generating units ("CGUs"), the identification of indicators of impairment for property and equipment, investment property, intangible assets and goodwill, the recognition and measurement of assets acquired and liabilities assumed, the recognition of provisions and non-controlling interest put and call options.

Estimates, judgments and assumptions that could have a significant impact to the amounts recognized on the consolidated financial statements are summarized below. Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from these estimates.

Estimates, and judgments relating to the adoption of IFRS 16, "Leases" ("IFRS 16"), including the measurement of lease liabilities, right-of-use assets, discount rates and lease term expectations used are outlined in note 3(ab).

The novel coronavirus pandemic has had, and continues to have, a significant impact on the Company. The Company's financial results show increased sales, driven by increased demand for food retailing product following the onset of the crisis. Additional costs were incurred as a result of the pandemic, including compensation incentives for employees, and community support funding, combined with additional cost for safety and sanitization measures. The full economic impact the pandemic will have on the Company remains uncertain and is dependent on the severity and duration of the virus.

(a) 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.

(b) Impairment
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 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. Impairment losses and reversals are disclosed on the consolidated financial statements in Notes 9, 11, 12 and 13.

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.

(c) Employee future benefits
Accounting for the costs of defined benefit pension plans and other post-employment benefits requires the use of several assumptions. Pension obligations are based on current market conditions and actuarial determined data such as medical cost trends, mortality rates, and future salary increases. A sensitivity analysis and more detail of key assumptions used in measuring the pension and post-employment benefit obligations are disclosed in Note 18.

(d) Income taxes
Assumptions are applied when management assesses the timing and reversal of temporary differences and estimates the Company's future earnings to determine the recognition of current and deferred income taxes. Judgments are also made by management when interpreting the tax rules in jurisdictions where the Company operates. Note 14 details the current and deferred income tax expense and deferred tax assets and liabilities.

(e) Business acquisitions
For business acquisitions, the Company applies judgment on the recognition and measurement of assets acquired 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.

(f) Provisions
Estimates and assumptions are used to calculate provisions when the Company estimates the expected future cash flows relating to the obligation and applies an appropriate discount rate.

(g) 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.

3. Summary of significant accounting policies

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all periods presented, with the exception of IFRS 16.

(a) Basis of consolidation

The financial statements for the Company include the accounts of the Company and all of its subsidiary undertakings up to the reporting date. Subsidiaries, including SEs, are all entities the Company controls. All subsidiaries have a reporting date within six weeks of the Company's reporting date. Where necessary, adjustments have been made to reflect transactions between the reporting dates of the Company and its subsidiaries.

Control exists when the Company has existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The Company reassesses control on an ongoing basis.

SEs are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. SEs are consolidated if, based on an evaluation of the substance of its relationship with the Company, the Company concludes that it controls the SE. SEs controlled by the Company were established under terms that impose certain limitations on the decision making powers of the SEs management and that results in the Company receiving the majority of the benefits related to the SEs operations and net assets, being exposed to the majority of risks incident to the SEs activities, and retaining the majority of the residual or ownership risks related to the SEs or their assets.

All intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

Earnings or losses and other comprehensive income or losses of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interest represents the portion of a subsidiary's earnings and losses and net assets that is not held by the Company. If losses in a subsidiary applicable to a non-controlling interest exceed the non-controlling interest in the subsidiary's equity, the excess is allocated to the non-controlling interest except to the extent that the majority has a binding obligation and is able to cover the losses, except as discussed in Note 3(j).

(b) Business acquisitions

Business acquisitions are accounted for by applying the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded on the financial statements prior to acquisition. The acquiree's identifiable assets, liabilities, and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business combinations", are recognized at their fair value at the acquisition date, except for: (i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements which are recognized and measured in accordance with International Accounting Standard ("IAS") 12, "Income taxes", and IAS 19, "Employee benefits", respectively; and (ii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, "Non-current assets held for sale and discontinued operations", which are measured and recognized at fair value less costs to sell. Goodwill arising on acquisition is recognized as an asset and represents the excess of acquisition cost over the fair value of the Company's share of the identifiable net assets of the acquiree at the date of the acquisition. Any excess of identifiable net assets over the acquisition cost is recognized in net earnings or loss immediately after acquisition. Transaction costs related to the acquisition are expensed as they are incurred.

(c) Foreign currency translation

Assets and liabilities of foreign operations with a different functional currency than the Company are translated at exchange rates in effect at each reporting period end date. The revenues and expenses are translated at average exchange rates for the period. Cumulative gains and losses on translation are shown in accumulated other comprehensive income or loss.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each reporting period end date. Non-monetary items are translated at the historical exchange rate at the date of transaction. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income or loss. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the period.

(d) Cash and cash equivalents
Cash and cash equivalents are defined as cash and guaranteed investments with a maturity less than 90 days at date of acquisition, as well as, highly liquid guaranteed investments that are redeemable in cash on demand without penalty.

(e) Inventories
Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

(f) Income taxes
Tax expense recognized in net earnings or loss comprises the sum of deferred income tax and current income tax not recognized in other comprehensive income or loss.

Current income tax assets and liabilities are comprised of claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is the tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantively enacted at the balance sheet date. It includes adjustments for tax expected to be payable or recoverable in respect of previous periods. Where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on the most likely amount of the liability or recovery. The calculation of current income tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred income taxes are calculated using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities and their related tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business acquisition or affects tax or accounting profit. The deferred tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the amounts are expected to settle. Deferred tax assets are only recognized to the extent that it is probable that they will be able to be utilized against future taxable income. The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be used without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by management based on the specific facts and circumstances.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of income or expense in net earnings or loss, except where they relate to items that are recognized in other comprehensive income or loss (such as the unrealized gains and losses on cash flow hedges) or directly in equity.

(g) Assets held for sale
Certain property and equipment have been listed for sale and reclassified as assets held for sale on the consolidated balance sheets. These assets are expected to be sold within a 12 month period. Assets held for sale are valued at the lower of carrying value and fair value less costs to sell.

(h) Investments in associates
Associates are those entities over which the Company is able to exert significant influence but which it does not control and which are not interests in a joint venture. Control is reassessed on an ongoing basis. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to the acquisition method as explained above. However, any goodwill or fair value adjustment attributable to the Company's share in the associate is included in the amount recognized as investments in associates.

All subsequent changes to the Company's share of interest in the equity of the associate are recognized in the carrying amount of the investment. Changes resulting from the earnings or losses generated by the associate are reported within share of earnings from investments, at equity on the Company's consolidated statements of earnings or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from earnings of the associate or items recognized directly in the associate's equity are recognized in earnings or losses or equity of the Company, as applicable. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports earnings, the Company resumes recognizing its share of those earnings only after its share of the earnings exceeds the accumulated share of losses that had previously not been recognized.

Unrealized gains and losses on transactions between the Company and its associates are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a Company perspective.

At each reporting period end date, the Company assesses whether there are any indicators of impairment in its investment in associates. For investments in publicly traded entities, carrying value of the investment is compared to the current market value of the investment based on its quoted price at the balance sheet date. For entities which are not publicly traded, VIU of the investment is determined by estimating the Company's share of the present value of the estimated cash flows expected to be generated by the investee. If impaired, the carrying value of the Company's investment is written down to its estimated recoverable amount, being the higher of fair value less cost to sell and VIU.

In the process of measuring future cash flows, management makes assumptions about future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's investments in associates in the subsequent financial years.

Each of the associates identified by the Company has a reporting year end of December 31. For purposes of the Company's consolidated year end financial statements, each of the associates' results are included based on financial statements prepared as at March 31, with any changes occurring between March 31 and the Company's year end that would materially affect the results being taken into account.

(i) Investments in joint ventures
Investments in joint ventures are joint arrangements whereby the Company and the other parties to the arrangements have joint control and therefore have rights to the net assets of the arrangement. Investments in joint ventures are initially recognized at cost and subsequently accounted for using the equity method.

(j) Financial instruments
Financial instruments are recognized on the consolidated balance sheets when the Company becomes a party to the contractual provisions of a financial instrument. The classification and measurement categories for financial assets are amortized cost, fair value through other comprehensive income ("FVOCI"), and FVTPL. Financial assets that are not designated as FVTPL on initial recognition are classified and measured at amortized cost if (i) they are held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Debt investments that are not designated as FVTPL on initial recognition are classified and measured at FVOCI if (i) they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Equity investments held for trading are classified and measured at FVTPL. Financial assets not classified at amortized cost or FVOCI are classified and measured at FVTPL. The classification and measurement categories for financial liabilities are amortized cost and FVTPL.

The Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	**Classification and Measurement**
Cash and cash equivalents	Amortized cost
Receivables	Amortized cost
Loans and other receivables	Amortized cost
Derivative financial assets and liabilities	FVTPL
Non-derivative other assets	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Other long-term liabilities	Amortized cost

Sobeys has entered into put and call options with non-controlling interest shareholders of certain subsidiary companies such that the Company may acquire their shareholdings under certain conditions on or after the exercise date. As a result, the Company recognizes a financial liability at the present value of the amount payable on exercise of the applicable put option. Remeasurement adjustments are recorded in retained earnings. At the end of each reporting period, non-controlling interests for these subsidiaries that have been recognized, including the earnings attributable to these non-controlling interests, are derecognized against the related non-controlling interest liability immediately before its period-end revaluation.

Impairment of financial assets are based on expected credit losses ("ECL"). The Company recognizes loss allowances on its trade receivables based on lifetime ECLs for those assets measured at amortized cost. Loss allowances are recognized on loans and other receivables for which the credit risk has not increased significantly since initial recognition based on the 12-month ECL. Where there is a significant increase in the credit risk of loans and other receivables subsequent to initial recognition, the Company recognizes loss allowances based on lifetime ECLs. The Company considers past events, current conditions, and reasonable and supportable forecasts affecting collectability when determining whether the credit risk of a financial asset has increased significantly since initial recognition, or in estimating lifetime ECLs.

(k) Hedges

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and energy prices. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income or loss. To the extent the change in fair value of the derivative does not completely offset the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings or loss. Amounts accumulated in other comprehensive income or loss are reclassified to net earnings or loss when the hedged item is recognized in net earnings or loss. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income or loss relating to the hedge is carried forward until the hedged item is recognized in net earnings or loss. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income or loss is immediately reclassified to net earnings or loss.

Financial derivatives assigned as part of a cash flow hedging relationship are classified on the consolidated balance sheets as either an other asset or other long-term liability as required based on their fair value determination.

Significant derivatives include the following:

(i) Foreign currency forward contracts and foreign currency swaps for the primary purpose of limiting exposure to exchange rate fluctuations relating to the purchase of goods or expenditures denominated in foreign currencies. Certain contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(ii) Electricity forward contracts for the primary purpose of limiting exposure to fluctuations in the market prices of electricity. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(iii) Natural gas forward contracts for the primary purpose of limiting exposure to fluctuations in the market prices of natural gas. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in fair value of the contracts is accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in earnings or loss in future accounting periods.

(l) Property and equipment

Owner-occupied land, buildings, equipment, leasehold improvements, and assets under construction are carried at acquisition cost less accumulated depreciation and impairment losses.

Under IFRS 16, buildings that are leasehold property are classified as right-of-use assets and are reported separately on the consolidated balance sheet (Note 10).

When significant parts of property and equipment have different useful lives, they are accounted for as separate components. Depreciation is recorded on a straight-line basis from the time the asset is available or when assets under construction become available for use over the estimated useful lives of the assets as follows:

Buildings	10 - 40 years
Equipment	3 - 20 years
Leasehold improvements	Lesser of lease term and 7 - 20 years

Depreciation has been included within selling and administrative expenses on the consolidated statements of earnings. Material residual value estimates and estimates of useful life are reviewed and updated as required, or annually at a minimum.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings or loss within other income. If the sale is to a Company's investment, at equity, a portion of the gain or loss is deferred and reduces the carrying value of the investment.

(m) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both, rather than for the principal purpose of the Company's operating activities. Investment properties are accounted for using the cost model. The depreciation policies for investment property are consistent with those described for property and equipment.

Any gain or loss arising from the sale of an investment property is immediately recognized in net earnings or loss, unless the sale is to an investment, at equity, in which case a portion of the gain or loss is deferred and would reduce the carrying value of the Company's investment. Rental income and operating expenses from investment property are reported within other income and selling and administrative expenses, respectively, on the consolidated statements of earnings.

(n) Leases

For year ending May 4, 2019, 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 year ending May 2, 2020, see Note 3(ab).

(o) Intangibles
Intangibles arise on the purchase of a new business, existing franchises, software, and the acquisition of pharmacy prescription files. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Useful lives are reviewed annually and intangibles are subject to impairment testing. The following useful lives are applied:

Deferred purchase agreements	5 - 10 years
Franchise rights/agreements	10 years
Lease rights	5 - 10 years
Prescription files	15 years
Software	3 - 7 years
Other	5 - 10 years
Off market leases (May 4, 2019)	Lesser of lease term and 40 years

Amortization has been included within selling and administrative expenses on the consolidated statements of earnings. Expenditures made by the Company relating to intangible assets that do not meet the capitalization criteria are expensed in the period incurred.

Included in intangibles are brand names, loyalty programs, and private labels, the majority of which have indefinite useful lives. Intangibles with indefinite useful lives are measured at cost less any accumulated impairment losses. These intangibles are tested for impairment on an annual basis or more frequently if there are indicators that intangibles may be impaired.

(p) Goodwill
Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible and intangible assets acquired at the date of acquisition.

(q) Impairment of non-financial assets
Goodwill and indefinite life intangibles are reviewed for impairment at least annually by assessing the recoverable amount of each CGU or groups of CGUs to which the goodwill or indefinite life intangible relates. The recoverable amount is the higher of FVLCD and VIU. When the recoverable amount of the CGU(s) is less than the carrying amount, an impairment loss is recognized immediately in net earnings or loss. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and finite life intangible assets are reviewed each reporting period for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of FVLCD and VIU. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU(s) to which the asset belongs. The Company has determined a CGU to be primarily an individual store or customer fulfilment centre. Corporate assets such as head offices and distribution centres do not individually generate separate cash inflows and are therefore aggregated for testing with the stores they service. When the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to the recoverable amount. An impairment loss is recognized immediately in selling and administrative expenses on the consolidated statements of earnings.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or CGU) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior years. A reversal of impairment loss is recognized immediately in net earnings or loss.

(r) Customer loyalty programs
The AIR MILES® loyalty program is used by the Company. AIR MILES® are earned by Sobeys customers based on purchases in stores. The Company pays a per point fee under the terms of the agreement with AIR MILES®. The cost of points is recorded as a reduction of revenue.

(s) 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. Where discounting is used, the increase in the provision due to passage of time ("unwinding of the discount") is recognized within finance costs, net on the consolidated statements of earnings.

(t) Borrowing costs

Borrowing costs are primarily comprised of interest on the Company's debts. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as a component of the cost of the asset to which it is related. All other borrowing costs are expensed in the period in which they are incurred and are reported within finance costs.

(u) Deferred revenue

Deferred revenue consists of long-term supplier purchase agreements. Deferred revenue is included in other long-term liabilities and is amortized to income on a straight-line basis over the term of the related agreements.

(v) Employee benefits

(i) Short-term employment benefits

Short-term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses expected to be settled within 12 months from the end of the reporting period. Short-term employee benefits are measured on an undiscounted basis and are recorded as selling and administrative expenses as the related service is provided.

(ii) Post-employment benefits

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, and retirement ages.

The liability recognized on the consolidated balance sheets for defined benefit plans is the present value of the defined benefit obligation at the reporting date less the fair market value of plan assets. 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.

Remeasurements, comprising of actuarial gains and losses and the return on plan assets (excluding amounts in net interest), are recognized immediately on the consolidated balance sheets with a corresponding charge to retained earnings through other comprehensive income or loss in the period in which they occur. Remeasurements are not reclassified to net earnings or loss in subsequent periods.

Past service costs are recognized in net earnings or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Company recognizes restructuring-related costs.

Service cost on the net defined benefit liability, comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, is included in selling and administrative expenses. Net interest expense on the net defined benefit liability is included in finance costs, net.

(iii) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the Company recognizes related restructuring costs and when the Company can no longer withdraw the offer of those benefits.

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

(x) Vendor allowances
The Company receives allowances from certain vendors whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. The Company recognizes these allowances as a reduction of cost of sales and related inventories. Certain allowances are contingent on the Company achieving minimum purchase levels and these allowances are recognized when it is probable that the minimum purchase level will be met, and the amount of allowance can be estimated.

(y) Interest and dividend income
Interest income and expenses are reported on an accrual basis using the effective interest method. Dividend income is recognized when the right to receive payment has been established.

(z) Earnings per share
Basic earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive effect of employee stock options and performance share units. When a loss is recorded, the weighted average number of shares used for the purpose of basic and diluted loss per share is equal, as the impact of all potential common shares would be anti-dilutive.

(aa) Stock-based compensation
The Company operates both equity and cash settled stock-based compensation plans for certain employees.

All goods and services received in exchange for the grant of any stock-based payments are measured at their fair values. Where employees are rewarded using stock-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted (Note 28).

(ab) 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.

(in millions of Canadian dollars, except share and per share amounts)

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

		May 5, 2019
Assets - increase (decrease)		
Current		
Prepaid expenses	**$**	(43.4)
Loans and other receivables		53.6
Current assets		10.2
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
Non-current assets		4,290.7
	$	**4,300.9**
Liabilities - (increase) decrease		
Current		
Provisions	**$**	7.4
Long-term debt due within one year		6.5
Lease liabilities due within one year		(424.4)
Current liabilities		(410.5)
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
Non-current liabilities		(4,322.4)
Shareholders' equity - decrease		
Retained earnings		432.0
	$	**(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:

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**

(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.

(in millions of Canadian dollars, except share and per share amounts)

4. Inventories

The cost of inventories recognized as an expense during the year was $19,954.9 (2019 - $19,058.4). The Company recorded $2.0 (2019 - $1.9) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 2, 2020. There were no reversals of inventories written down previously (2019 - $ nil).

5. Loans and other receivables

	May 2, 2020	May 4, 2019
Loans receivable	**$ 42.9**	$ 56.4
Lease receivable	**574.7**	-
Notes receivable and other	**31.6**	33.1
	649.2	89.5
Less amount due within one year	**68.4**	18.7
	$ 580.8	$ 70.8

Loans receivable represent long-term financing to certain retail associates. These loans are primarily secured by inventory, fixtures and equipment; bear various interest rates, and have repayment terms up to 10 years. The carrying amount of the loans receivable approximates fair value based on the variable interest rates charged on the loans.

Lease receivables are a result of the adoption of IFRS 16 and the introduction of balance sheet recognition for finance subleases (Note 10). All lease receivables are due from franchisees and are secured by the related head lease.

Included in notes receivable and other as at May 2, 2020, is $8.8 (2019 - $10.3) due from a third party related to equipment sales.

6. Assets held for sale

As at May 2, 2020, assets held for sale relates to land, buildings and equipment expected to be sold in the next 12 months. These assets were previously used in the Company’s retail and retail support operations.

During fiscal 2020, the Company reclassified one property from assets held for sale to investment property, due to an incomplete transaction. Total reclassification value was $19.5, with $3.4 recognized as depreciation expense that would have otherwise been recognized if the asset had not been classified as held for sale.

During fiscal 2019, Sobeys sold four properties to third parties. Total proceeds from these transactions were $18.6, resulting in a pre-tax gain of $14.4.

7. Investments, at equity

	May 2, 2020	May 4, 2019
Investment in associates and joint ventures		
Crombie Real Estate Investment Trust ("Crombie REIT")	**$ 501.0**	$ 466.5
Canadian real estate partnerships	**87.2**	94.6
U.S. real estate partnerships	**14.0**	20.3
Joint ventures	**5.3**	8.0
Total	**$ 607.5**	$ 589.4

The fair value of the investment in Crombie REIT, which is based on a published price quoted on the Toronto Stock Exchange, is as follows:

	May 2, 2020	May 4, 2019
Crombie REIT	**$ 825.1**	$ 904.7

The Canadian and U.S. real estate partnerships and joint ventures are not publicly listed on a stock exchange and hence published price quotes are not available.

(in millions of Canadian dollars, except share and per share amounts)

The Company owns 64,677,272 Class B LP units and attached special voting units of Crombie REIT, along with 909,090 REIT units, representing a 41.5% (2019 - 41.5%) economic and voting interest in Crombie REIT.

Crombie REIT has a distribution reinvestment plan ("DRIP") whereby Canadian resident REIT unitholders may elect to have their distributions automatically reinvested in additional REIT units. The Company is enrolled in the DRIP.

During fiscal 2020, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 of Class B limited partnership units.

The Company's carrying value of its investment in Crombie REIT is as follows:

	May 2, 2020	May 4, 2019
Balance, beginning of year	**$ 466.5**	$ 448.5
Equity earnings	**50.7**	63.6
Share of comprehensive income	**1.7**	-
Distributions, net of DRIP	**(61.4)**	(53.5)
Deferral of gains on sale of property	**(7.4)**	(4.0)
Reversal of deferred gain on sale of property to unrelated party	**9.4**	11.9
Interest acquired in Crombie REIT	**41.5**	-
Balance, end of year	**$ 501.0**	$ 466.5

The Company's carrying value of its investment in Canadian real estate partnerships is as follows:

	May 2, 2020	May 4, 2019
Balance, beginning of year	**$ 94.6**	$ 90.7
Equity earnings	**16.7**	18.5
Distributions	**(24.1)**	(14.6)
Balance, end of year	**$ 87.2**	$ 94.6

The Company's carrying value of its investment in U.S. real estate partnerships is as follows:

	May 2, 2020	May 4, 2019
Balance, beginning of year	**$ 20.3**	$ 23.2
Equity earnings	**3.3**	4.9
Distributions	**(10.5)**	(8.7)
Foreign currency translation adjustment	**0.9**	0.9
Balance, end of year	**$ 14.0**	$ 20.3

The following amounts represent the revenues, expenses, assets, and liabilities of Crombie REIT as at and for the 12 months ended March 31, 2020, as well as a reconciliation of the carrying amount of the Company's investment in Crombie REIT to the net assets attributable to unitholders of Crombie REIT:

	March 31, 2020	March 31, 2019
Revenues	**$ 395.8**	$ 414.1
Expenses	**259.6**	284.4
Earnings before income taxes	**$ 136.2**	$ 129.7
Loss from continuing operations	**$ (14.9)**	$ (5.2)
Other comprehensive loss	**(2.4)**	(0.9)
Total comprehensive loss	**$ (17.3)**	$ (6.1)

(in millions of Canadian dollars, except share and per share amounts)

	March 31, 2020	March 31, 2019
Assets		
Current	**$ 161.4**	$ 17.3
Non-current	**3,876.9**	4,030.4
Total	**$ 4,038.3**	$ 4,047.7
Liabilities		
Current	**$ 335.9**	$ 413.8
Non-current	**2,166.0**	2,180.5
Total	**$ 2,501.9**	$ 2,594.3

	March 31, 2020	March 31, 2019
Unitholders' net assets		
REIT Units	**$ 915.6**	$ 870.7
Class B LP Units	**620.8**	582.7
	1,536.4	1,453.4
Less total REIT Units outstanding as at March 31	**(915.6)**	(870.7)
Cumulative changes since acquisition of Crombie REIT		
Variances in timing of distributions	**4.8**	4.6
Issue costs related to Class B LP Units	**12.6**	12.6
Deferred gains (net of depreciation addback and timing variances)	**(158.6)**	(154.9)
Dilution gains	**38.6**	38.6
Write off of portion of AOCI on dilution of interest in Crombie REIT	**0.7**	0.7
Crombie REIT tax reorganization - deferred tax adjustment	**(31.7)**	(31.7)
Carrying amount attributable to investment in Class B LP Units	**487.2**	452.6
REIT Units owned by Empire	**13.8**	13.8
Cumulative equity earnings on REIT Units	**6.1**	5.3
Cumulative distributions on REIT Units	**(6.1)**	(5.2)
Empire's carrying amount of investment in Crombie REIT	**$ 501.0**	$ 466.5

The Company has interests in various Canadian real estate partnerships ranging from 40.7% to 49.0% which are involved in residential property developments in Ontario and Western Canada.

The following amounts represent the revenues, expenses, assets, and liabilities of the Canadian real estate partnerships as at and for the 12 months ended March 31, 2020:

	March 31, 2020	March 31, 2019
Revenues	**$ 110.5**	$ 112.1
Expenses	**69.8**	67.4
Net earnings	**$ 40.7**	$ 44.7

	March 31, 2020	March 31, 2019
Current assets	**$ 243.6**	$ 264.1
Current liabilities	**61.2**	67.8
Net assets	**$ 182.4**	$ 196.3
Carrying amount of investment	**$ 87.2**	$ 94.6

The Company has interests in various U.S. real estate partnerships ranging from 37.1% to 39.0% which are involved in residential property developments in the United States.

(in millions of Canadian dollars, except share and per share amounts)

The following amounts represent the revenues, expenses, assets, and liabilities of the U.S. real estate partnerships as at and for the 12 months ended March 31, 2020:

	March 31, 2020	March 31, 2019
Revenues	**$ 20.1**	$ 33.3
Expenses	**11.3**	21.4
Net earnings	**$ 8.8**	$ 11.9

	March 31, 2020	March 31, 2019
Current assets	**$ 38.0**	$ 58.3
Current liabilities	**1.4**	2.5
Net assets	**$ 36.6**	$ 55.8
Carrying amount of investment	**$ 14.0**	$ 20.3

8. Other assets

	May 2, 2020	May 4, 2019
Investments	**$ 11.9**	$ 8.2
Deferred lease assets	**9.4**	25.0
Derivative assets	**0.2**	1.4
Deferred financing costs	**0.7**	2.1
Other	**6.5**	6.7
Total	**$ 28.7**	$ 43.4

9. Property and equipment

May 2, 2020	**Land**	**Buildings**	**Equipment**	**Leasehold Improvements**	**Assets Under Construction**	**Total**
Cost						
Opening balance	**$ 485.2**	**$ 1,280.7**	**$ 2,655.6**	**$ 784.2**	**$ 268.1**	**$ 5,473.8**
Reclassification due to IFRS 16	**-**	**(44.5)**	**(29.4)**	**-**	**-**	**(73.9)**
Balance after reclassification	**485.2**	**1,236.2**	**2,626.2**	**784.2**	**268.1**	**5,399.9**
Additions	**0.9**	**(6.5)**	**138.1**	**28.4**	**358.8**	**519.7**
Additions from business acquisitions	**9.5**	**1.6**	**1.9**	**0.4**	**-**	**13.4**
Transfers and adjustments	**(6.8)**	**38.3**	**104.1**	**37.9**	**(265.3)**	**(91.8)**
Disposals and write downs	**(36.9)**	**(84.9)**	**(256.5)**	**(61.5)**	**1.7**	**(438.1)**
Closing balance	**$ 451.9**	**$ 1,184.7**	**$ 2,613.8**	**$ 789.4**	**$ 363.3**	**$ 5,403.1**
Accumulated depreciation and impairment losses						
Opening balance	**$ -**	**$ 495.0**	**$ 1,601.3**	**$ 466.0**	**$ -**	**$ 2,562.3**
Reclassification due to IFRS 16	**-**	**(29.8)**	**(21.8)**	**-**	**-**	**(51.6)**
Balance after reclassification	**-**	**465.2**	**1,579.5**	**466.0**	**-**	**2,510.7**
Disposals and write downs	**-**	**(25.8)**	**(209.7)**	**(60.3)**	**-**	**(295.8)**
Transfers and adjustments	**-**	**(1.3)**	**(20.8)**	**(14.7)**	**-**	**(36.8)**
Depreciation	**-**	**50.6**	**240.3**	**53.2**	**-**	**344.1**
Impairment losses	**-**	**4.1**	**3.5**	**0.7**	**-**	**8.3**
Impairment reversals	**-**	**(2.3)**	**(4.9)**	**(3.6)**	**-**	**(10.8)**
Closing balance	**$ -**	**$ 490.5**	**$ 1,587.9**	**$ 441.3**	**$ -**	**$ 2,519.7**
Net carrying value as at May 2, 2020	**$ 451.9**	**$ 694.2**	**$ 1,025.9**	**$ 348.1**	**$ 363.3**	**$ 2,883.4**

(in millions of Canadian dollars, except share and per share amounts)

May 4, 2019	**Land**	**Buildings**	**Equipment**	**Leasehold Improvements**	**Assets Under Construction**	**Total**
Cost						
Opening balance	$ 511.2	$ 1,309.3	$ 2,547.4	$ 700.9	$ 78.8	$ 5,147.6
Additions	1.6	4.7	120.2	16.9	268.1	411.5
Additions from business acquisitions	-	-	36.4	36.1	13.2	85.7
Transfers and adjustments	(10.9)	3.9	34.5	43.4	(90.7)	(19.8)
Disposals and write downs	(16.7)	(37.2)	(82.9)	(13.1)	(1.3)	(151.2)
Closing balance	$ 485.2	$ 1,280.7	$ 2,655.6	$ 784.2	$ 268.1	$ 5,473.8
Accumulated depreciation and impairment losses						
Opening balance	$ -	$ 464.0	$ 1,459.4	$ 436.9	$ -	$ 2,360.3
Disposals and write downs	-	(18.5)	(76.5)	(12.8)	-	(107.8)
Transfers and adjustments	-	(4.3)	1.4	12.4	-	9.5
Depreciation	-	54.1	230.7	46.8	-	331.6
Impairment losses	-	0.1	4.4	0.3	-	4.8
Impairment reversals	-	(0.4)	(18.1)	(17.6)	-	(36.1)
Closing balance	$ -	$ 495.0	$ 1,601.3	$ 466.0	$ -	$ 2,562.3
Net carrying value as at May 4, 2019	$ 485.2	$ 785.7	$ 1,054.3	$ 318.2	$ 268.1	$ 2,911.5

Finance leases
For year ended May 4, 2019, under IAS 17, the Company had various property leases with a net carrying value of $14.7. These leases are included in buildings.

For year ended May 4, 2019, under IAS 17, the Company has equipment leases with a net carrying value of $7.6. These leases are included in equipment.

Assets under construction
During the year, the Company capitalized borrowing costs of $1.8 (2019 - $0.6) on indebtedness related to property and equipment under construction. The Company used a capitalization rate of 4.3% (2019 - 4.4%).

Security
As at May 2, 2020, the net carrying value of property pledged as security for borrowings is $50.9 (2019 - $54.1).

Impairment of property and equipment
The Company performed an impairment test for property and equipment and determined recoverable amounts based on VIU calculations using cash flow projections from the Company's latest internal forecasts. When the recoverable amount of a CGU is less than the carrying amount, an impairment loss is recognized. When the recoverable amount of a previously impaired CGU is greater than the value of its impaired assets, an impairment reversal is recognized. Key assumptions used in determining VIU include discount rates, growth rates, and expected changes in cash flows. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the CGUs. Forecasts are projected beyond three years based on long-term growth rates ranging from 2.0% to 5.0%. Discount rates are calculated on a pre-tax basis and range from 7.0% to 10.0%.

Impairment reversals of $10.8 and losses of $8.3 were recorded in selling and administrative expenses during the year ended May 2, 2020 (2019 - $36.1 and $4.8). The impairment reversals were mainly a result of improved operating performance at previously impaired stores in Western Canada.

All impairment losses and reversals relate to the food retailing segment.

(in millions of Canadian dollars, except share and per share amounts)

10. Leases

Finance leases, as lessee
The Company leases various retail stores, distribution centres, offices, and equipment under non-cancellable finance leases. These leases have varying terms, escalation clauses, renewal options, and bases on which variable rent is payable.

As of May 2, 2020, changes in right-of-use assets are as follows:

	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 adjustments	(32.8)	-	**(32.8)**
Depreciation	(353.1)	(7.4)	**(360.5)**
Closing balance	**$ 3,967.7**	**$ 65.8**	**$ 4,033.5**

During the year ended May 2, 2020, the Company completed sale and leaseback transactions which resulted in a right-of-use adjustment of $15.4.

The Company has variable rent payments which are recognized in selling and administrative expenses. Contingent rent recognized for the year ended May 2, 2020 is $12.6 (2019 - $5.3).

Finance lease liabilities
As of May 2, 2020, changes in lease liabilities are as follows:

	Total
Opening balance as at May 5, 2019	**$ 4,994.0**
Lease additions, net of lease terminations	**664.3**
Lease payments	**(610.3)**
Interest expense on lease liabilities	**218.2**
Closing balance	**$ 5,266.2**
Current	**$ 466.2**
Non-current	**4,800.0**
Total	**$ 5,266.2**

The weighted average incremental borrowing rate is 4.2% as at May 2, 2020. The weighted average lease term remaining as at May 2, 2020 is 14 years.

The total future minimum rent payable under the Company's finance leases as of May 2, 2020 is $7,030.2. The commitments over the next five fiscal years are:

	Third Party Lease Payments	Related Party Lease Payments
2021	$ 473.6	$ 152.0
2022	472.7	153.3
2023	452.7	154.1
2024	414.7	155.5
2025	380.5	155.5
Thereafter	2,669.3	1,396.3

Under IAS 17 the total net future minimum rent payable under the Company's finance leases as of May 4, 2019 was $39.1.

Operating leases, as lessee
The Company has short-term operating leases that are primarily related to equipment and vehicles. The Company recorded $16.5 in selling and administrative expenses.

Under IAS 17, the Company recorded $596.9 as an expense for minimum lease payments for the year ended May 4, 2019.

(in millions of Canadian dollars, except share and per share amounts)

Under IAS 17 the total net, future minimum rent payable under the Company's operating leases as of May 4, 2019 was $4,825.2. This was a gross lease obligation of $5,837.8 reduced by expected sublease income of $1,012.6. Related party lease obligations were $2,418.6.

Finance leases, as a lessor
Finance income for the year ended May 2, 2020 was $24.5 (2019 - $nil). The total future minimum rent to be received by the Company relating to properties that are subleased to third parties are:

		Finance Lease Payments to be Received
2021	$	78.2
2022		76.7
2023		73.5
2024		67.6
2025		62.6
Thereafter		372.8
Total undiscounted lease payments receivable		731.4
Unearned finance income		156.7
Net investment in finance subleases	$	574.7

Under IAS 17 the Company did not classify any leases as finance leases as at May 4, 2019.

Operating leases, as lessor
The Company leases most investment properties under operating leases. These leases have varying terms, escalation clauses, renewal options and bases upon which contingent rent is receivable.

Lease income for the year ended May 2, 2020 was $17.5 (2019 - $19.1) of which $0.2 was contingent rent (2019 - $0.2) and was recognized within other income on the consolidated statements of earnings.

The lease payments expected to be received over the next five fiscal years for owned properties are:

		Operating Lease Payments to be Received
2021	$	8.2
2022		7.8
2023		7.4
2024		6.4
2025		5.0
Thereafter		10.0
Total	$	44.8

The Company recorded $57.0 (2019 - $125.2) of sub-lease income for minimum lease payments received.

The lease payments expected to be received over the next five fiscal years for sub-leased properties are:

		Operating Lease Payments to be Received
2021	$	52.4
2022		46.5
2023		41.5
2024		33.4
2025		27.6
Thereafter		242.5
Total	$	443.9

(in millions of Canadian dollars, except share and per share amounts)

11. Investment property

Investment property is primarily comprised of commercial properties owned by the Company held for income generating purposes, rather than for the principal purpose of the Company's operating activities.

	May 2, 2020	May 4, 2019
Cost		
Opening balance	**$ 119.8**	$ 112.8
Additions	**2.8**	0.3
Transfers and adjustments	**19.7**	8.4
Disposals and write downs	**(1.4)**	(1.7)
Closing balance	**$ 140.9**	$ 119.8
Accumulated depreciation and impairment losses		
Opening balance	**$ 19.8**	$ 18.9
Depreciation	**4.5**	1.4
Impairment expense	**4.4**	-
Transfers and adjustments	**(1.7)**	-
Disposals and write downs	**(0.1)**	(0.5)
Closing balance	**$ 26.9**	$ 19.8
Net carrying value	**$ 114.0**	$ 100.0
Fair value	**$ 176.6**	$ 161.0

The fair value of investment property is classified as Level 3 on the fair value hierarchy. The fair value represents the price that would be received to sell the assets in an orderly transaction between market participants at the measurement date.

An external, independent valuation company, having appropriate recognized professional qualifications and experience, assisted in determining the fair value of investment properties chosen from a rotating sample each year at May 2, 2020 and May 4, 2019. Additions to investment property through acquisition are transacted at fair value and therefore carrying value equals fair value at the time of acquisition. Properties reclassified from property and equipment are valued for disclosure purposes using comparable market information or the use of an external independent valuation company.

Rental income from investment property included in other income on the consolidated statements of earnings amounted to $2.9 for the year ended May 2, 2020 (2019 - $2.0).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to $3.2 for the year ended May 2, 2020 (2019 - $1.1). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to $1.2 for the year ended May 2, 2020 (2019 - $0.8). All direct operating expenses for investment properties are included in selling and administrative expenses on the consolidated statements of earnings.

Impairment of investment property follows the same methodology as property and equipment (Note 3(q)). Impairment losses of $4.4 and reversals of $nil were recorded during the year ended May 2, 2020 (2019 - $nil and $nil).

(in millions of Canadian dollars, except share and per share amounts)

12. Intangibles

May 2, 2020	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	**$ 465.9**	**$ 164.5**	**$ 304.0**	**$ 267.6**	**$ 158.6**	**$ 244.2**	**$ 1,604.8**
Reclassification due to IFRS 16	**-**	**-**	**-**	**-**	**(158.6)**	**-**	**(158.6)**
Balance after reclassification	**465.9**	**164.5**	**304.0**	**267.6**	**-**	**244.2**	**1,446.2**
Additions, separately acquired	**-**	**14.4**	**-**	**39.7**	**-**	**15.9**	**70.0**
Additions, internally developed	**-**	**-**	**-**	**0.1**	**-**	**-**	**0.1**
Additions from business acquisitions	**0.3**	**-**	**-**	**-**	**-**	**-**	**0.3**
Transfers and adjustments	**-**	**(1.0)**	**-**	**34.9**	**-**	**0.3**	**34.2**
Disposals and write downs	**-**	**(6.3)**	**-**	**(14.1)**	**-**	**(2.6)**	**(23.0)**
Closing balance	**$ 466.2**	**$ 171.6**	**$ 304.0**	**$ 328.2**	**$ -**	**$ 257.8**	**$ 1,527.8**
Accumulated amortization and impairment losses							
Opening balance	**$ 28.3**	**$ 91.7**	**$ 125.1**	**$ 174.4**	**$ 31.9**	**$ 91.4**	**$ 542.8**
Reclassification due to IFRS 16	**-**	**-**	**-**	**-**	**(31.9)**	**-**	**(31.9)**
Balance after reclassification	**28.3**	**91.7**	**125.1**	**174.4**	**-**	**91.4**	**510.9**
Amortization	**-**	**15.4**	**19.5**	**31.0**	**-**	**5.6**	**71.5**
Transfers and adjustments	**-**	**-**	**-**	**(0.5)**	**-**	**(0.6)**	**(1.1)**
Disposals and write downs	**-**	**(5.6)**	**-**	**(14.1)**	**-**	**(2.6)**	**(22.3)**
Closing balance	**$ 28.3**	**$ 101.5**	**$ 144.6**	**$ 190.8**	**$ -**	**$ 93.8**	**$ 559.0**
Net carrying value as at May 2, 2020	**$ 437.9**	**$ 70.1**	**$ 159.4**	**$ 137.4**	**$ -**	**$ 164.0**	**$ 968.8**

May 4, 2019	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	$ 201.0	$ 161.0	$ 304.1	$ 287.9	$ 172.4	$ 207.2	$ 1,333.6
Additions, separately acquired	-	10.4	-	8.1	-	8.7	27.2
Additions, internally developed	-	-	-	(0.4)	-	-	(0.4)
Additions from business acquisitions	265.0	-	-	0.4	-	8.8	274.2
Transfers and adjustments	(0.1)	(2.5)	(0.1)	(7.2)	(13.8)	20.6	(3.1)
Disposals and write downs	-	(4.4)	-	(21.2)	-	(1.1)	(26.7)
Closing balance	$ 465.9	$ 164.5	$ 304.0	$ 267.6	$ 158.6	$ 244.2	$ 1,604.8
Accumulated amortization and impairment losses							
Opening balance	$ 28.2	$ 81.2	$ 105.7	$ 161.6	$ 32.2	$ 82.7	$ 491.6
Amortization	0.2	15.5	19.5	34.1	5.9	9.0	84.2
Transfers and adjustments	(0.1)	-	(0.1)	-	(6.2)	-	(6.4)
Disposals and write downs	-	(5.0)	-	(21.3)	-	(0.3)	(26.6)
Closing balance	$ 28.3	$ 91.7	$ 125.1	$ 174.4	$ 31.9	$ 91.4	$ 542.8
Net carrying value as at May 4, 2019	$ 437.6	$ 72.8	$ 178.9	$ 93.2	$ 126.7	$ 152.8	$ 1,062.0

(in millions of Canadian dollars, except share and per share amounts)

Included in other intangibles at May 2, 2020 are liquor licenses of $7.5 (2019 - $5.2). These licenses have options to renew and it is the Company's intention to renew these licenses at each renewal date indefinitely. Therefore, cash inflows are expected to be generated at each store location for which the license is valid, and these assets are considered to have indefinite useful lives. Also included in other intangibles as at May 2, 2020 are the following amounts with indefinite useful lives: Loyalty programs - $11.4 (2019 - $11.4) and Private labels - $59.5 (2019 - $59.5). The Company has also determined that Brand names with a net carrying value of $437.9 (2019 - $437.6) have indefinite useful lives. All intangibles with indefinite useful lives relate to the food retailing segment. Impairment of these intangibles is assessed at least annually on the same basis as goodwill (Note 13).

Impairment of intangibles follows the same methodology as property and equipment (Note 3(q)). For the year ended May 2, 2020, impairment losses of $ nil (2019 - $ nil) and reversals of $ nil (2019 - $ nil) were recorded.

13. Goodwill

	May 2, 2020	May 4, 2019
Opening balance	**$ 1,571.5**	$ 1,001.9
Additions from business acquisitions	**2.5**	569.6
Other adjustments	**(0.3)**	-
Closing balance	**$ 1,573.7**	$ 1,571.5

Goodwill arising from business acquisitions is allocated at the lowest level within the organization at which it is monitored by management to make business decisions and should not be larger than an operating segment before aggregation. Therefore, goodwill has been allocated to the following six food retailing operating segments:

	May 2, 2020	May 4, 2019
Atlantic	**$ 193.8**	$ 193.8
Farm Boy	**541.4**	541.6
Lawtons	**19.3**	17.1
Ontario	**174.3**	174.3
Quebec	**641.2**	641.2
West	**3.7**	3.5
Total	**$ 1,573.7**	$ 1,571.5

Goodwill arising on business acquisitions is not amortized but is reviewed for impairment on an annual basis, or more frequently, if indicators that goodwill may be impaired exist. The Company's annual review of goodwill was performed during the third quarter of fiscal 2020 and resulted in an impairment of $ nil (2019 - $ nil) being recorded.

In performing the review, the Company determined the recoverable amount of the CGU to which goodwill relates based on FVLCD, except for Farm Boy which was estimated using a VIU model. For all operating segments other than Farm Boy, the key assumptions used by management to determine the fair value of the CGU includes industry earnings multiples in a range from 8.0 to 14.0. Farm Boy goodwill was measured using discounted cash flow projections, using pre-tax cash flow forecasts from management approved budgets for the next fiscal year using a discount rate of 9.9%. Cash flow growth is based on projections for new retail sites as well as growth of 3% to 6.6% over a 10 year timeline, with a terminal growth rate of 3%.

(in millions of Canadian dollars, except share and per share amounts)

14. Income taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory tax rate as a result of the following:

	May 2, 2020	**May 4, 2019**
Earnings before income taxes	**$ 832.7**	$ 560.7
Effective combined statutory income tax rate	**27.4%**	27.7%
Income tax expense according to combined statutory income tax rate	**228.2**	155.3
Income taxes resulting from:		
Non-deductible items	**0.8**	0.3
Non-taxable items	**(7.3)**	(8.7)
Change in tax rates and subsidiary rate differential	**0.4**	(2.6)
Other	**(2.2)**	-
Total income tax expense, combined effective tax rate of 26.4% (2019 - 25.7%)	**$ 219.9**	$ 144.3

Current year income tax expense attributable to net earnings consists of:

	May 2, 2020	**May 4, 2019**
Current tax expense	**$ 31.1**	$ 35.5
Deferred tax expense:		
Origination and reversal of temporary differences	**188.4**	111.4
Change in tax rates	**0.4**	(2.6)
Total	**$ 219.9**	$ 144.3

Deferred taxes arising from temporary differences and unused tax losses can be summarized as follows:

		Recognized in:			
May 2, 2020	**Opening Balance**	**OCI and Equity**	**Business Acquisitions**	**Net Earnings**	**Closing Balance**
Accounts payable and accrued liabilities	**$ 7.4**	**$ -**	**$ -**	**$ (3.3)**	**$ 4.1**
Employee future benefits	**79.6**	**6.0**	**-**	**(2.6)**	**83.0**
Goodwill and intangibles	**111.4**	**34.5**	**-**	**(57.4)**	**88.5**
Inventory	**5.6**	**-**	**-**	**(0.9)**	**4.7**
Investments	**(38.1)**	**(0.3)**	**-**	**(0.7)**	**(39.1)**
Lease liabilities	**-**	**1,370.9**	**-**	**38.4**	**1,409.3**
Long-term debt	**5.8**	**-**	**-**	**(7.7)**	**(1.9)**
Other assets	**(1.7)**	**2.0**	**-**	**(5.1)**	**(4.8)**
Other long-term liabilities	**42.0**	**(39.7)**	**-**	**38.0**	**40.3**
Property, equipment, and investment property	**(59.2)**	**-**	**-**	**(4.9)**	**(64.1)**
Provisions	**76.0**	**(3.4)**	**-**	**(41.6)**	**31.0**
Partnership deferral reserve	**10.4**	**-**	**-**	**7.3**	**17.7**
Right-of-use assets and lease receivables	**-**	**(1,200.5)**	**-**	**(32.6)**	**(1,233.1)**
Tax loss carry forwards	**170.4**	**-**	**-**	**(112.9)**	**57.5**
Other	**(0.8)**	**-**	**-**	**(2.8)**	**(3.6)**
	$ 408.8	**$ 169.5**	**$ -**	**$ (188.8)**	**$ 389.5**
Recognized as:					
Deferred tax assets	**$ 614.3**	**$ 161.8**	**$ -**	**$ (189.1)**	**$ 587.0**
Deferred tax liabilities	**$ (205.5)**	**$ 7.7**	**$ -**	**$ 0.3**	**$ (197.5)**

(in millions of Canadian dollars, except share and per share amounts)

		Recognized in:			
May 4, 2019	**Opening Balance**	**OCI and Equity**	**Business Acquisitions**	**Net Earnings**	**Closing Balance**
Accounts payable and accrued liabilities	$ (8.8)	$ -	$ -	$ 16.2	$ 7.4
Employee future benefits	100.1	(18.0)	-	(2.5)	79.6
Equity	3.8	-	-	(3.8)	-
Goodwill and intangibles	284.5	-	(77.2)	(95.9)	111.4
Inventory	4.9	-	-	0.7	5.6
Investments	(39.9)	-	-	1.8	(38.1)
Long-term debt	7.3	-	-	(1.5)	5.8
Other assets	(0.3)	-	-	(1.4)	(1.7)
Other long-term liabilities	29.8	-	(0.3)	12.5	42.0
Property, equipment, and investment property	(105.2)	-	(4.6)	50.6	(59.2)
Provisions	74.4	-	4.6	(3.0)	76.0
Partnership deferral reserve	11.6	-	-	(1.2)	10.4
Tax loss carry forwards	251.5	-	-	(81.1)	170.4
Other	(0.6)	-	-	(0.2)	(0.8)
	$ 613.1	$ (18.0)	$ (77.5)	$ (108.8)	$ 408.8
Recognized as:					
Deferred tax assets	$ 754.4	$ -	$ -	$ (140.1)	$ 614.3
Deferred tax liabilities	$ (141.3)	$ (18.0)	$ (77.5)	$ 31.3	$ (205.5)

As at May 2, 2020, the Company had approximately $208.4 of Canadian non-capital tax loss carry forwards, which expire between fiscal 2034 and 2040. The remaining deductible temporary differences do not expire under current income tax legislation. All deferred tax assets (including tax losses and other tax credits) have been recognized in the consolidated balance sheets as it is probable that future taxable income will be available to the Company to utilize the benefits of those assets. The amount of deferred tax assets and deferred tax liabilities that are expected to be recovered or settled beyond the next 12 months is $312.8.

15. Provisions

May 2, 2020	**Lease Contracts**	**Legal**	**Environmental**	**Restructuring**	**Total**
Opening balance	**$ 19.3**	**$ 7.0**	**$ 42.4**	**$ 143.8**	**$ 212.5**
Reclassification due to IFRS 16 (Note 3(ab))	**(7.1)**	**-**	**-**	**(24.0)**	**(31.1)**
Balance after reclassification	**12.2**	**7.0**	**42.4**	**119.8**	**181.4**
Provisions made	**4.8**	**7.8**	**1.5**	**36.9**	**51.0**
Provisions used	**(5.0)**	**(3.8)**	**(1.9)**	**(91.6)**	**(102.3)**
Provisions reversed	**(1.3)**	**(3.4)**	**(1.8)**	**(23.2)**	**(29.7)**
Change due to discounting	**0.2**	**-**	**1.2**	**1.6**	**3.0**
Closing balance	**$ 10.9**	**$ 7.6**	**$ 41.4**	**$ 43.5**	**$ 103.4**
Current	**$ 7.1**	**$ 7.6**	**$ 1.5**	**$ 32.5**	**$ 48.7**
Non-current	**3.8**	**-**	**39.9**	**11.0**	**54.7**
Total	**$ 10.9**	**$ 7.6**	**$ 41.4**	**$ 43.5**	**$ 103.4**

(in millions of Canadian dollars, except share and per share amounts)

Lease contracts
Lease contract provisions are recorded when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting the obligations under the contract. The Company records onerous contract provisions for closed store locations where it has entered into a lease contract. The provision is measured at the lower of the expected cost to terminate the lease and the expected net cost of continuing the contract. The net cost is derived by considering the present value of future fixed occupancy costs net of related operating subleases in the lease excluding lease payments which are recognized as lease liabilities under IFRS 16. Once the store is closed, a liability is recorded to reflect the present value of the expected liability associated with any lease contract and other contractually obligated costs. Onerous contract provisions for planned store or distribution centre closures as part of the Company's rationalization activities are classified as restructuring provisions and are measured and recorded using the same methodology. Discounting of provisions resulting from lease contracts has been calculated using pre-tax discount rates ranging between 7.0% and 9.0%.

Legal costs
Legal provisions relate to claims of $7.6 (2019 - $7.0) that are outstanding as at May 2, 2020 that arose in the ordinary course of business.

Environmental costs
In accordance with legal and environmental policy requirements, the Company has recorded provisions for locations requiring environmental restoration. These provisions relate to decommissioning liabilities recorded for fuel station locations owned by the Company and other sites where restoration will be incurred at the net present value of the estimated future remediation costs. Discounting of environmental related provisions has been calculated using pre-tax discount rates ranging between 4.0% and 6.0%.

Restructuring
Restructuring provisions made for fiscal year ended May 2, 2020 were $36.9. Of this amount, $18.4 relates to store conversion costs. These costs have been recorded in selling and administrative expenses on the consolidated statements of earnings. Provisions used of $91.6 relate to the Company's initiatives to simplify organizational structures and reduce costs. Of this amount, $56.5 relates to voluntary BC buyouts and store conversion severance costs. Provisions reversed of $23.2 relates mainly to store conversion severance costs and BC buyouts. Discounting of restructuring provisions has been calculated using a pre-tax discount rate of 7.0%.

16. Long-term debt

	May 2, 2020	**May 4, 2019**
First mortgage loans, weighted average interest rate 5.84%, due 2021 - 2033	**$ 4.8**	$ 5.8
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	**175.0**	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	**125.0**	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	**150.0**	150.0
Series 2013-2 Notes, interest rate 4.70%, due August 8, 2023	**500.0**	500.0
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	**137.3**	140.4
Credit facility, expiring November 4, 2020, floating interest rate tied to bankers' acceptance rates	**125.0**	500.0
Credit facility, expiring December 10, 2020, floating interest rate tied to bankers' acceptance rates	**400.0**	400.0
Credit facility, expiring November 4, 2022, floating interest rate tied to bankers' acceptance rates	**62.6**	-
	1,679.7	1,996.2
Unamortized transaction costs	**(4.5)**	(4.4)
Finance lease obligations, 6.05% (Note 3(ab))	**-**	29.1
	1,675.2	2,020.9
Less amount due within one year	**570.0**	36.5
	$ 1,105.2	$ 1,984.4

First mortgage loans are secured by land, buildings, and specific charges on certain assets. Medium term notes and 2013-2 Notes are unsecured. Finance lease obligations have been reclassified under IFRS 16 (Note 3(ab)).

(in millions of Canadian dollars, except share and per share amounts)

The Company has a $250.0, 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 (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. 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 has been repaid on this facility.

On December 5, 2018, Sobeys established a senior, unsecured non-revolving credit facility for $400.0. 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.

Sobeys has a $650.0 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 in letters of credit against the facility (2019 - $65.9). Interest payable on this facility fluctuates with changes in the Canadian prime rate, or bankers' acceptance rates.

The following table reconciles the changes in cash flows from financing activities for long-term debt.

	May 2, 2020	May 4, 2019
Opening balance	**$ 2,020.9**	$ 1,666.9
Reclassification due to IFRS 16 (Note 3(ab))	**(29.1)**	-
Opening balance after reclassification	**1,991.8**	1,666.9
Issuance of debt	**80.8**	58.3
Repayments of long-term debt	**(85.2)**	(605.2)
(Repayments) advances on credit facilities	**(313.1)**	900.0
Total cash flow from long-term debt financing activities	**(317.5)**	353.1
Deferred financing costs	**0.9**	0.9
Closing balance	**$ 1,675.2**	$ 2,020.9
Current	**$ 570.0**	$ 36.5
Non-current	**1,105.2**	1,984.4
Total	**$ 1,675.2**	$ 2,020.9

Principal debt retirement in each of the next five fiscal years is as follows:

2021	$ 570.0
2022	43.6
2023	8.8
2024	507.9
2025	5.3
Thereafter	544.1

17. Other long-term liabilities

	May 2, 2020	May 4, 2019
Deferred lease obligation (Note 3(ab))	**$ -**	$ 165.4
Deferred revenue	**6.1**	6.6
Non-controlling interest liabilities	**77.5**	90.1
Other	**13.9**	6.9
Total	**$ 97.5**	$ 269.0

18. Employee future benefits

The Company has several defined contribution, defined benefit, and multi-employer plans providing pension and other post-retirement benefits to most of its employees.

(in millions of Canadian dollars, except share and per share amounts)

Defined contribution pension plans

The contributions required by the employee and the employer are specified. The employee's pension depends on what level of retirement income can be achieved with the combined total of employee and employer contributions and investment income over the period of plan membership, and annuity purchase rates at the time of the employee's retirement.

Defined benefit pension plans

The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, and employer contributions fund the balance. The employer contributions are not specified or defined within the pension plan text, but are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation.

The defined benefit plan typically exposes the Company to actuarial risks such as interest rate risk, mortality risk and salary risk.

Interest rate risk

The present value of the defined benefit liability is calculated using a discount rate that reflects the average yield, as at the measurement date, on high quality corporate bonds of similar duration to the plans' liabilities. A decrease in the market yield on high quality corporate bonds will increase the Company's defined benefit liability.

Mortality risk

The present value of the defined benefit plan is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salary of the plan participants. As such, an increase in the salary of plan participants will increase the plan's liability.

The Company uses either January 1 or December 31 as an actuarial valuation date and May 1 as a measurement date for accounting purposes, for its defined benefit pension plans.

	Most Recent Valuation Date	**Next Required Valuation Date**
Retirement pension plans	December 31, 2017	December 31, 2019 (elected)
Senior management pension plans	December 31, 2016	December 31, 2019
Other benefit plans	January 1, 2019	January 1, 2022

Multi-employer plans

The Company participates in various multi-employer pension plans which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. Approximately 15% of employees in the Company and of its franchisees and affiliates participate in these plans. Defined benefit multi-employer pension plans are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plans is not available due to the size and number of contributing employers in the plans. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements. The contributions made by the Company to multi-employer plans are expensed as contributions are due.

During the year ended May 2, 2020, the Company recognized an expense of $43.5 (2019 - $44.1) in operating income, which represents the contributions made in connection with multi-employer pension plans. During fiscal 2020, the Company expects to continue to make contributions into these multi-employer pension plans.

Other benefit plans

The Company also offers certain employee post-retirement and post-employment benefit plans which are not funded and include health care, life insurance, and dental benefits.

Defined contribution plans

The total expense, and cash contributions, for the Company's defined contribution plans was $32.8 for the year ended May 2, 2020 (2019 - $32.6).

(in millions of Canadian dollars, except share and per share amounts)

Defined benefit plans

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	May 2, 2020	**May 4, 2019**	**May 2, 2020**	**May 4, 2019**
Defined benefit obligation				
Balance, beginning of year	**$ 819.8**	$ 833.2	**$ 113.2**	$ 158.7
Current service cost, net of employee contributions	**1.0**	1.2	**2.5**	3.5
Interest cost	**24.9**	27.2	**3.6**	5.3
Benefits paid	**(67.4)**	(55.4)	**(4.7)**	(5.9)
Past service costs - curtailments	**-**	(2.2)	**-**	-
Settlements	**0.1**	0.5	**-**	-
Remeasurement - actuarial losses (gains) included in other comprehensive income	**61.7**	15.3	**(1.3)**	(48.4)
Balance, end of year	**$ 840.1**	$ 819.8	**$ 113.3**	$ 113.2

	Pension Benefit Plans		Other Benefit Plans	
	May 2, 2020	**May 4, 2019**	**May 2, 2020**	**May 4, 2019**
Plan assets				
Fair value, beginning of year	**$ 646.9**	$ 630.7	**$ -**	$ -
Interest income on plan assets	**19.7**	20.5	**-**	-
Remeasurement return (loss) on plan assets (excluding amount in net interest)	**33.2**	33.0	**-**	-
Employer contributions	**18.3**	19.5	**4.7**	5.9
Benefits paid	**(67.4)**	(55.4)	**(4.7)**	(5.9)
Administrative costs	**(1.4)**	(1.4)	**-**	-
Fair value, end of year	**$ 649.3**	$ 646.9	**$ -**	$ -

	Pension Benefit Plans		Other Benefit Plans	
	May 2, 2020	**May 4, 2019**	**May 2, 2020**	**May 4, 2019**
Funded status				
Total fair value of plan assets	**$ 649.3**	$ 646.9	**$ -**	$ -
Present value of unfunded obligations	**(96.3)**	(92.8)	**(113.3)**	(113.2)
Present value of partially funded obligations	**(743.8)**	(727.0)	**-**	-
Accrued benefit liabilities	**$ (190.8)**	$ (172.9)	**$ (113.3)**	$ (113.2)

	Pension Benefit Plans		Other Benefit Plans	
	May 2, 2020	**May 4, 2019**	**May 2, 2020**	**May 4, 2019**
Expenses				
Current service cost, net of employee contributions	**$ 1.0**	$ 1.2	**$ 2.5**	$ 3.5
Net interest on net defined benefit liability	**5.2**	6.7	**3.6**	5.3
Administrative costs	**1.4**	1.4	**-**	-
Past service costs - curtailments	**-**	(2.2)	**-**	-
Settlement loss	**0.1**	0.5	**-**	-
Expenses	**$ 7.7**	$ 7.6	**$ 6.1**	$ 8.8

Current and past service costs have been recognized within selling and administrative expenses, whereas interest costs and return on plan assets (excluding amounts in net interest costs) have been recognized within finance costs, net on the consolidated statements of earnings.

(in millions of Canadian dollars, except share and per share amounts)

Actuarial gains and losses recognized directly in other comprehensive income:

	Pension Benefit Plans		Other Benefit Plans	
	May 2, 2020	**May 4, 2019**	**May 2, 2020**	**May 4, 2019**
Remeasurement effects recognized in other comprehensive (loss) income				
(Return) loss on plan assets (excluding amounts in net interest)	**$ (33.2)**	$ (33.0)	**$ -**	$ -
Actuarial loss (gain) - experience changes	**5.5**	(6.9)	**(5.4)**	(49.1)
Actuarial loss - financial assumptions	**56.3**	22.2	**4.1**	0.7
Remeasurement effects recognized in other comprehensive (loss) income	**$ (28.6)**	$ 17.7	**$ 1.3**	$ 48.4

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 2, 2020):

	Pension Benefit Plans		Other Benefit Plans	
	May 2, 2020	**May 4, 2019**	**May 2, 2020**	**May 4, 2019**
Discount rate	**2.70%**	3.20%	**2.70%**	3.10%
Rate of compensation increase	**3.50%**	3.50%		

For measurement purposes, a 5.00% fiscal 2020 annual rate of increase in the per capita cost of covered health care benefits was assumed (2019 - 5.25%). The cumulative rate expectation to 2022 and thereafter is 4.50%.

These assumptions were developed by management under consideration of expert advice provided by independent actuarial appraisers. These assumptions are used in the determination of the Company's defined benefit obligations and should be regarded as management's best estimate. However, the actual outcome may vary. Estimation uncertainties exist especially regarding medical cost trends, which may vary significantly in future appraisals of the Company's obligations.

The table below outlines the sensitivity of the fiscal 2020 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	Pension Benefit Plans		Other Benefit Plans	
	Benefit Obligations	**Benefit Cost**[(1)]	**Benefit Obligations**	**Benefit Cost**[(1)]
Discount rate [(2)]	2.70%	2.70%	2.70%	2.70%
Impact of: 1% increase	$ (101.1)	$ (2.6)	$ (13.1)	$ 0.2
Impact of: 1% decrease	$ 127.1	$ 1.3	$ 16.1	$ (0.3)
Growth rate of health care costs [(3)]			5.00%	5.00%
Impact of: 1% increase			$ 5.3	$ 0.3
Impact of: 1% decrease			$ (4.6)	$ (0.3)

(1) *Reflects the impact on the current service cost, interest cost, and net interest on defined benefit liability (asset).*
(2) *Based on weighted average of discount rates related to all plans.*
(3) *Gradually decreasing to 4.50% in 2022 and remaining at that level thereafter.*

The asset mix of the defined benefit pension plans as at year end is as follows:

	May 2, 2020	**May 4, 2019**
Canadian equity funds	**5.1%**	6.7%
Foreign equity funds	**14.0%**	14.9%
Fixed income funds	**80.6%**	78.1%
Net working capital	**0.3%**	0.3%
Total investments	**100.0%**	100.0%

(in millions of Canadian dollars, except share and per share amounts)

Within these securities are investments in Empire Non-Voting Class A shares. The pro-rata market value of these shares at year end is as follows:

	May 2, 2020	% of Plan Assets	May 4, 2019	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	**$ 6.0**	**0.9%**	$ 9.2	1.4%

All the securities are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

The actual return on plan assets was $51.5 for the year ended May 2, 2020 (2019 - $52.1).

Management's best estimate of contributions expected to be paid to the defined benefit pension plans during the annual period beginning on May 3, 2020 and ending on May 1, 2021 is $15.0.

19. Capital stock

Normal course issuer bid

On June 27, 2019, the Company filed a notice of intent with the Toronto Stock Exchange to purchase for cancellation up to 3.5 million Non-Voting Class A shares representing approximately 2% of shares outstanding. Purchases commenced on July 2, 2019 and shall terminate not later than July 1, 2020.

During the second quarter of fiscal 2020, the Company entered into an automatic share purchase plan with its designated broker allowing the purchase of Non-Voting Class A shares for cancellation under its normal course issuer bid program during trading black-out periods.

During fiscal 2020, the Company purchased for cancellation 2,997,583 Non-Voting Class A shares at an average price of $33.36. The purchase price was $100.0 of which $35.4 of the purchase price was accounted for as a reduction to share capital and the remainder as a reduction to retained earnings.

	Number of Shares	
Authorized	**May 2, 2020**	**May 4, 2019**
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	**Number of Shares**	**May 2, 2020**	**May 4, 2019**
Non-Voting Class A shares, without par value	**170,971,038**	**$ 2,009.1**	$ 2,040.6
Class B common shares, without par value, voting	**98,138,079**	**7.3**	7.3
Shares held in trust	**(163,497)**	**(3.2)**	(5.3)
Total		**$ 2,013.2**	$ 2,042.6

Under certain circumstances, where an offer (as defined in the share conditions) is made to purchase Class B common shares, the holders of the Non-Voting Class A shares shall be entitled to receive a follow-up offer at the highest price per share paid, pursuant to such offer to purchase Class B common shares.

During fiscal 2020, the Company paid common dividends of $129.7 (2019 - $119.5) to its equity holders. This represents a payment of $0.48 per share (2019 - $0.44 per share) for common shareholders.

(in millions of Canadian dollars, except share and per share amounts)

The Company has 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 an SE 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

20. Other income

	May 2, 2020	**May 4, 2019**
Net gain on disposal of assets and lease terminations	**$ 51.7**	$ 48.9
Lease income from owned property	**17.5**	19.4
Total	**$ 69.2**	$ 68.3

21. Employee benefits expense

	May 2, 2020	**May 4, 2019**
Wages, salaries and other short-term employment benefits	**$ 3,319.3**	$ 3,156.2
Post-employment benefits	**37.8**	37.0
Termination benefits	**8.7**	9.8
Total	**$ 3,365.8**	$ 3,203.0

22. Finance costs, net

	May 2, 2020	**May 4, 2019**
Finance income		
Interest income on lease receivables	**$ 24.5**	$ -
Interest income from cash and cash equivalents	**8.0**	8.3
Fair value gains on forward contracts	**3.6**	3.7
Accretion income on loans and other receivables	**0.5**	0.6
Total finance income	**36.6**	12.6
Finance costs		
Interest expense on lease liabilities	**218.2**	-
Interest expense on financial liabilities measured at amortized cost	**85.6**	86.5
Net pension finance costs	**8.9**	12.0
Accretion expense on provisions	**3.0**	5.7
Total finance costs	**315.7**	104.2
Finance costs, net	**$ 279.1**	$ 91.6

23. Earnings per share

	May 2, 2020	**May 4, 2019**
Weighted average number of shares - basic (Note 19)	**270,441,107**	271,940,649
Shares deemed to be issued for no consideration in respect of stock-based payments	**972,901**	614,062
Weighted average number of shares - diluted	**271,414,008**	272,554,711

(in millions of Canadian dollars, except share and per share amounts)

24. Business acquisitions

The Company acquires franchise and non-franchise retail stores, retail fuel locations and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the acquisition method. Goodwill recorded on the acquisitions of franchise and non-franchise stores and retail fuel locations relate to the acquired work force and customer base of the existing store location, along with the synergies expected from combining the efforts of the acquired stores with existing stores.

The following table represents the amounts of identifiable assets and liabilities from resulting acquisitions for the year ending:

	May 2, 2020	May 4, 2019
Receivables	**$ 0.8**	$ 4.9
Inventories	**3.0**	24.5
Prepaid expenses	**-**	2.5
Property and equipment	**13.4**	85.7
Intangibles	**0.3**	274.2
Goodwill	**2.5**	569.6
Accounts payable and accrued liabilities	**(0.8)**	(38.7)
Other assets and liabilities	**-**	2.6
Deferred tax liability	**-**	(77.5)
Non-controlling interest	**-**	(66.9)
Total consideration	**$ 19.2**	$ 780.9

For acquired businesses during fiscal year ended May 2, 2020, sales of $34.6 and net losses of ($1.2) were included in the consolidated financial statements.

During the year ending May 2, 2020, the Company finalized the purchases price allocation of Farm Boy and Kim Phat acquisitions acquired in prior year. No adjustments were made to the amounts disclosed in the audited consolidated financial statements for the fiscal year ended May 4, 2019.

25. Guarantees and contingent liabilities

Guarantees

Franchisees and affiliates
Sobeys is party to several franchise and operating agreements as part of its business model. These agreements contain clauses which require Sobeys to provide support to franchisee and affiliate operators to offset or mitigate retail store losses, reduce store rental payments, minimize the impact of promotional pricing, and assist in covering other store related operating expenses. Not all of the financial support noted above will apply in each instance as the provisions of the agreements vary. Sobeys will continue to provide financial support pursuant to the franchise and operating agreements in future years.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain franchisees and affiliates for the purchase and installation of equipment. Under the terms of the contract, should franchisees and affiliates be unable to fulfill their lease obligations or provide an acceptable remedy, Sobeys would be required to fund the greater of $6.0 or 10.0% (2019 - $6.0 or 10.0%) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to provide a letter of credit in the amount of the outstanding guarantee, to be renewed each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain franchisees and affiliates. As at May 2, 2020, the amount of the guarantee was $6.0 (2019 - $6.0).

Other
At May 2, 2020, the Company had entered into letters of credit issued in an aggregate amount of $88.6 (2019 - $79.5) to support the Company's obligations.

Sobeys, through its subsidiaries, has guaranteed the payment of obligations under certain commercial development agreements. As at May 2, 2020, Sobeys has guaranteed $40.0 (2019 - $43.5) in obligations related to these agreements.

(in millions of Canadian dollars, except share and per share amounts)

Contingent liabilities

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to Lumsden Brothers Limited, a wholesale subsidiary of Sobeys, and the Goods and Service Tax ("GST"). The reassessment related to GST on sales of tobacco products to status Indians. CRA asserts that Sobeys was obliged to collect GST on sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was $13.6 (2019 - $13.6). Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During fiscal 2006, Sobeys filed a Notice of Objection with CRA. The matter is still under dispute and Sobeys has filed a Notice of Appeal with the Tax Court of Canada. Accordingly, Sobeys has not recorded on its statements of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds equal to the total tax, interest and penalties in the reassessment and has recorded this amount as an other long-term receivable from CRA pending resolution of the matter.

There are various claims and litigation, with which the Company is involved, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

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.

26. Financial instruments

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, receivables, loans and other receivables, derivative contracts and guarantees.

The Company's maximum exposure to credit risk corresponds to the carrying amount for all cash and cash equivalents, loans and receivables, and guarantee contracts for franchisees and affiliates (Note 25).

The Company mitigates credit risk associated with its trade receivables and loans receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be solid. The Company regularly monitors collection performance and pledged security for all of its receivables and loans and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building, as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with counterparties that are dual rated by recognized credit rating agencies and have a credit rating of "A" or better to minimize credit risk.

Receivables are substantially comprised of balances due from independent accounts, franchisee or affiliate locations as well as rebates and allowances from vendors. The due date of these amounts can vary by agreement but in general balances over 30 days are considered past due. The aging of the receivables is as follows:

	May 2, 2020	May 4, 2019
0 - 30 days	**$ 464.0**	$ 386.8
31 - 90 days	**28.2**	10.9
Greater than 90 days	**81.9**	73.3
Total receivables before allowance for credit losses	**574.1**	471.0
Less: allowance for credit losses	**(38.8)**	(26.8)
Receivables	**$ 535.3**	$ 444.2

Interest earned on past due accounts is recorded as a reduction to selling and administrative expenses on the consolidated statements of earnings. Receivables are classified as current on the consolidated balance sheets as of May 2, 2020.

(in millions of Canadian dollars, except share and per share amounts)

Allowance for credit losses is reviewed at each balance sheet date. An allowance is taken on receivables from independent accounts, as well as receivables, loans and other receivables from franchisee or affiliate locations and is recorded as a reduction to its respective receivable account on the consolidated balance sheets. The change in allowance for credit losses is recorded as selling and administrative expenses on the consolidated statements of earnings and is presented as follows:

		May 2, 2020		May 4, 2019
Allowance, beginning of year	**$**	**26.8**	$	27.5
Provision for losses		**17.2**		7.4
Recoveries		**(0.2)**		(1.9)
Write-offs		**(5.0)**		(6.2)
Allowance, end of year	**$**	**38.8**	$	26.8

Liquidity risk
Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

The Company monitors capital markets and the related conditions, and monitors its cash flows in order to assist in optimizing its cash position and evaluate longer term cash and funding requirements. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

The following table summarizes the amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 2, 2020:

	2021	2022	2023	2024	2025	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	$ 12.3	$ -	$ -	$ -	$ -	$ -	$ 12.3
Non-controlling interest liabilities	-	-	-	71.0	6.5	-	77.5
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	2,951.9	-	-	-	-	-	2,951.9
Long-term debt	629.9	98.2	63.3	550.5	36.1	906.1	2,284.1
Total	$ 3,594.1	$ 98.2	$ 63.3	$ 621.5	$ 42.6	$ 906.1	$ 5,325.8

Fair value of financial instruments
The fair value of a financial instrument is the estimated amount that the Company would receive to sell financial assets or pay to transfer financial liabilities in an orderly transaction between market participants at the measurement date.

The book value of cash and cash equivalents, receivables, current portion of loans and other receivables, and accounts payable and accrued liabilities approximates fair value at the balance sheet dates due to the short-term maturity of these instruments.

The book value of the long-term portion of loans and other receivables approximate fair values at the balance sheet dates due to the current market rates associated with these instruments.

The fair value of the variable rate long-term debt approximates its carrying amount based on current market rates and consistency of credit spread. The fair value of long-term debt has been estimated by discounting future cash flows at a rate offered for borrowings of similar maturities and credit quality.

The fair value of derivative financial assets and liabilities, classified as Level 2, is estimated using valuation models that utilize market based observable inputs. Management believes that its valuation technique is appropriate.

The fair value of the non-controlling interest put liabilities associated with the acquisitions of Farm Boy and Kim Phat is equivalent to the present value of the non-controlling interest buyout price which is based on the future earnings of these entities at a predetermined date. The fair value of these options is classified as Level 3 within the three-level hierarchy of IFRS 13.

There were no transfers between classes of the fair value hierarchy during the year ended May 2, 2020.

(in millions of Canadian dollars, except share and per share amounts)

The carrying amount of the Company's financial instruments approximates their fair values with the following exception:

Long-term debt		**May 2, 2020**		**May 4, 2019**
Total carrying amount	**$**	**1,675.2**	$	2,020.9
Total fair value	**$**	**1,832.2**	$	2,086.8

As at May 2, 2020, the fair value hierarchy includes financial assets at FVTPL of $ nil, $0.2, and $ nil for Levels 1, 2 and 3 respectively (2019 - $nil, $1.4, and $ nil).

As at May 2, 2020, the fair value hierarchy includes financial liabilities at FVTPL of $ nil, $0.3, and $77.5 for Levels 1, 2 and 3 respectively (2019 - $ nil, $0.1, and $90.1).

Derivative financial instruments
Derivative financial instruments are recorded on the consolidated balance sheets at fair value unless the derivative instrument is a contract to buy or sell a non-financial item in accordance with the Company's expected purchase, sale or usage requirements, referred to as a "normal purchase" or "normal sale". Changes in the fair values of derivative financial instruments are recognized in net earnings or loss unless it qualifies and is designated as an effective cash flow hedge or a normal purchase or normal sale. Normal purchases and normal sales are exempt from the application of the standard and are accounted for as executory contracts. Changes in fair value of a derivative financial instrument designated as a cash flow hedge are recorded in other assets and other long-term liabilities with the effective portion recorded in other comprehensive income or loss.

Cash flow hedges
The Company's cash flow hedges consist principally of foreign currency swaps, electricity sales agreements, and natural gas sales agreements. Foreign exchange contracts are used to hedge future purchases or expenditures of foreign currency denominated goods or services. Electricity and natural gas sales agreements are used to mitigate the risk of changes in market prices of electricity and natural gas. Gains and losses are initially recognized directly in other comprehensive income or loss and are transferred to net earnings or loss when the forecast cash flows affect income or expense for the year.

As of May 2, 2020, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of $0.2 (2019 - $1.4) and liabilities of $0.3 (2019 - $0.1).

Cash flows from cash flow hedges are expected to flow over the year until fiscal 2021, and are expected to be recognized in net earnings or loss over this period, and, in the case of foreign currency swaps, over the life of the related debt in which a portion of the initial cost is being hedged.

Interest rate risk
Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates.

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The majority of the Company's long-term debt is at fixed interest rates. Approximately 46.0% (2019 - 30.3%) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings or loss is impacted by a change in interest rates on the average balance of interest bearing financial liabilities during the year. For the year ending May 2, 2020, the Company's average outstanding unhedged floating rate debt was $849.3 (2019 - $567.4). An increase (decrease) of 25 basis points would have impacted net earnings by $1.5 ($1.5) (2019 - $1.0 ($1.0)) as a result of the Company's exposure to interest rate fluctuations on its unhedged floating rate debt.

Foreign currency exchange risk
The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars, British pound and European euros. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for foreign currencies. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. The Company does not consider its exposure to foreign currency exchange risk to be material.

(in millions of Canadian dollars, except share and per share amounts)

The Company has entered into foreign currency forward contracts and foreign currency swaps for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income or loss until the variability in cash flows being hedged is recognized in net earnings or loss in future accounting periods.

The Company estimates that a 10% increase (decrease) in applicable foreign currency exchange rates would impact net earnings by $ nil ($ nil) (2019 - $ nil ($ nil)) and other comprehensive income by $0.9 ($0.9) (2019 - $2.7 ($2.7)) for foreign currency derivatives in place at year end.

27. Segmented information

The Company's reportable segments are Food retailing and Investments and other operations. The Food retailing segment is comprised of six operating segments: Atlantic, Farm Boy, Lawtons, Ontario, Quebec, and West. These operating segments have been aggregated into one reportable segment, "Food retailing", as they all share similar economic characteristics such as: product offerings, customer base and distribution methods. The Investments and other operations segment principally consists of investments, at equity, in Crombie REIT, real estate partnerships, and various other corporate operations.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

All inter-segment transfers are carried out at arm's length prices. The measurement policies the Company uses for segment reporting under IFRS 8, "Operating segments", are the same as those used on its consolidated financial statements.

No asymmetrical allocations of income, expense or assets have been applied between segments.

All sales are generated by the Food retailing segment. Operating income generated by each of the Company's business segments is summarized as follows:

	May 2, 2020	May 4, 2019
Segmented operating income		
Food retailing	**$ 1,040.2**	$ 561.8
Investments and other operations		
Crombie REIT	**50.7**	63.6
Real estate partnerships	**20.1**	23.4
Other operations, net of corporate expenses	**0.8**	3.5
	71.6	90.5
Total	**$ 1,111.8**	$ 652.3

Segment operating income can be reconciled to the Company's earnings before income taxes as follows:

	May 2, 2020	May 4, 2019
Total operating income	**$ 1,111.8**	$ 652.3
Finance costs, net	**279.1**	91.6
Total	**$ 832.7**	$ 560.7

	May 2, 2020	May 4, 2019
Total assets by segment		
Food retailing	**$ 13,932.9**	$ 8,921.4
Investments and other operations	**700.0**	681.0
Total	**$ 14,632.9**	$ 9,602.4

(in millions of Canadian dollars, except share and per share amounts)

28. Stock-based compensation

Performance share unit plan

The Company awards performance share units ("PSUs") to certain employees. The number of PSUs that vest under an award, for the most part, is dependent on time and the achievement of specific performance measures. Upon vesting, each employee is entitled to receive Non-Voting Class A shares equal to the number of their vested PSUs. The weighted average fair value of $29.28 per PSU issued during the current year was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$30.41
Expected life	2.60 years
Risk-free interest rate	1.36%
Expected volatility	25.15%
Dividend yield	1.47%

At May 2, 2020, there were 284,184 (2019 - 338,275) PSUs outstanding. The compensation expense for the year ended May 2, 2020 related to PSUs was $1.6 (2019 - $3.0).

Stock option plan

During fiscal 2020, the Company granted 1,730,178 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A shares. The weighted average fair value of $6.79 per option issued during the year was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$31.38
Expected life	6.76 years
Risk-free interest rate	1.38%
Expected volatility	24.00%
Dividend yield	1.45%

The compensation expense for the year ended May 2, 2020 related to the issuance of options was $4.6 (2019 - $3.7).

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:

	2020		**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	

(in millions of Canadian dollars, except share and per share amounts)

The following table summarizes information related to stock options outstanding at May 2, 2020:

	Options Outstanding			Options Exercisable	
Year Granted	**Number of Outstanding Options**	**Weighted Average Remaining Contractual Life**[(1)]	**Weighted Average Exercise Price**	**Number Exercisable at May 2, 2020**	**Weighted Average Exercise Price**
2014	443,277	1.16	$ 26.25	443,277	$ 26.25
2015	163,554	2.16	22.55	163,554	22.55
2016	169,097	3.16	30.21	169,097	30.21
2017	567,705	4.16	19.87	357,482	19.72
2018	917,483	5.16	19.59	422,262	19.59
2019	709,752	6.16	26.01	176,761	26.01
2020	1,714,796	7.16	31.38	-	-
Total	4,685,664	5.37	$ 26.03	1,732,433	$ 23.29

(1) *Weighted average remaining contractual life is expressed in years.*

Deferred stock unit plans

Deferred stock units ("DSUs") issued to employees, under the Executive DSU Plan, vest dependent on time and the achievement of specific performance measures. At May 2, 2020, there were 1,337,562 (2019 - 1,063,299) DSUs outstanding related to this plan and the total carrying amount of the liability was $28.4 (2019 - $20.8). The compensation expense for the year ended May 2, 2020 related to DSUs was $12.0 (2019 - $14.2).

Members of the Board of Directors may elect to receive all or any portion of their fees in DSUs in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each directors' or employees' fee payment date. At May 2, 2020, there were 306,489 (2019 - 247,605) DSUs outstanding and the total carrying amount of the liability was $9.5 (2019 - $7.4). During the year ended May 2, 2020, the compensation expense recorded was $2.1 (2019 - $2.7).

Under both DSU plans, vested DSUs cannot be redeemed until the employee has left the Company or the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Non-Voting Class A share at the time of redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase or decrease in the DSU obligation as selling and administrative expenses.

29. 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 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, totaled approximately $188.8 (2019 - $206.2).

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 year ended May 2, 2020, Sobeys, through a wholly-owned subsidiary, received $61.8 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 is currently receivable from Crombie REIT for these reimbursements.

(in millions of Canadian dollars, except share and per share amounts)

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 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. This resulted in a pre-tax gain of $1.5 which has been recognized in other income on the consolidated statements of earnings.

On November 28, 2019, Sobeys, through a wholly-owned subsidiary, sold one property to Crombie REIT for cash consideration of $3.2. 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. This resulted in a pre-tax gain of $9.0 which has been recognized in other income on the consolidated statements of earnings. Subsequent to this transaction Crombie REIT owns 100% of the property.

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. Concurrent with the public offering, a wholly-owned subsidiary of the Company purchased, on a private placement basis, $41.5 of Class B limited partnership units.

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 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. This resulted in a pre-tax gain of $5.6, which has been recognized in other income on the consolidated statements of earnings.

On September 28, 2018, Sobeys, through a wholly-owned subsidiary, sold one property to Crombie REIT for cash consideration of $3.7. This resulted in a pre-tax gain of $1.5, which has been recognized in other income on the consolidated statements of earnings.

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:

	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
Total	**$ 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.

(in millions of Canadian dollars, except share and per share amounts)

30. Capital management

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and (iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of the Company. There have been no changes to the Company's objectives during the year ended May 2, 2020.

The Company monitors and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

The Company considers its total capitalization to include all interest-bearing debt, including bank loans, long-term debt (including the current portion thereof), lease liabilities and shareholders' equity, net of cash and cash equivalents. The calculation is set out in the following table:

	May 2, 2020	May 4, 2019
Long-term debt due within one year	**$ 570.0**	$ 36.5
Long-term debt	**1,105.2**	1,984.4
Lease liabilities due within one year	**466.2**	-
Long-term lease liabilities	**4,800.0**	-
Funded debt, including lease liabilities	**6,941.4**	2,020.9
Less cash and cash equivalents	**(1,008.4)**	(553.3)
Net funded debt	**5,933.0**	1,467.6
Shareholders' equity, net of non-controlling interest	**3,924.6**	4,003.3
Capital under management	**$ 9,857.6**	$ 5,470.9

The primary investments undertaken by the Company include additions to the selling square footage and renovations of its store network via the construction, expansion, and improvements to existing stores. These additions and modifications to the store network include related leasehold improvements and the purchase of land bank sites for future store construction. The Company makes capital investments in information technology, customer fulfillment centres, and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its investments and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. The cash flow is supplemented, when necessary, through the incurrence of additional debt or the issuance of additional capital stock.

Under the terms of existing debt agreements, three financial covenants are monitored on a quarterly basis by management to ensure compliance with the agreements. The covenants are: (i) adjusted total debt/EBITDA - calculated as net funded debt plus letters of credit, guarantees and commitments divided by EBITDA (as defined by the credit agreements and for the previous 52 weeks); (ii) lease adjusted debt/EBITDAR - calculated as adjusted total debt plus eight times rent divided by EBITDAR (as defined by the credit agreements and for the previous 52 weeks); and (iii) debt service coverage ratio - calculated as EBITDA divided by interest expense plus repayments of long-term debt (as defined by the credit agreements and for the previous 52 weeks). The Company was in compliance with these covenants during the year.