Consolidated Financial Statements

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MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in the report is the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or Generally Accepted Accounting Principles and reflect management's best estimates and judgments.

All other financial information in the report is consistent with that contained in the consolidated financial statements.

Management of the Company has established and maintains a system of internal control that provides reasonable assurance as to the integrity of the consolidated financial statements, the safeguarding of Company assets, and the prevention and detection of fraudulent financial reporting.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is chaired by and composed solely of directors who are unrelated to, and independent of, the Company, meet regularly with financial management and external auditors to satisfy itself as to reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual consolidated financial statements to be issued to shareholders.

The external auditors have full and free access to the Audit Committee.

signed "Michael Medline"

Michael Medline
President and Chief Executive Officer

June 27, 2018

signed "Michael Vels"

Michael Vels
Chief Financial Officer

June 27, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Empire Company Limited

We have audited the accompanying consolidated financial statements of Empire Company Limited and its subsidiaries, which comprise the consolidated balance sheets as at May 5, 2018 and May 6, 2017 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the 52-week periods ended May 5, 2018 and May 6, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Empire Company Limited and its subsidiaries as at May 5, 2018 and May 6, 2017 and their financial performance and their cash flows for the 52-week periods ended May 5, 2018 and May 6, 2017 in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants,
Licensed Public Accountants

Halifax, Canada
June 27, 2018

CONSOLIDATED BALANCE SHEET

As At (in millions of Canadian dollars)	May 5, 2018	May 6, 2017
ASSETS		
Current		
Cash and cash equivalents	$ 627.9	$ 207.3
Receivables	433.2	413.6
Inventories (NOTE 4)	1,251.6	1,322.2
Prepaid expenses	126.8	117.5
Loans and other receivables (NOTE 5)	20.9	25.5
Income taxes receivable	15.2	31.9
Assets held for sale (NOTE 6)	20.4	48.5
	2,496.0	2,166.5
Loans and other receivables (NOTE 5)	80.6	82.1
Investments	–	25.1
Investments, at equity (NOTE 7)	571.8	648.4
Other assets (NOTE 8)	34.1	43.3
Property and equipment (NOTE 9)	2,787.3	3,033.3
Investment property (NOTE 10)	93.9	103.0
Intangibles (NOTE 11)	842.0	880.5
Goodwill (NOTE 12)	1,001.9	1,003.4
Deferred tax assets (NOTE 13)	754.4	709.9
	$ 8,662.0	$ 8,695.5
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 2,253.8	$ 2,230.2
Income taxes payable	53.5	38.4
Provisions (NOTE 14)	127.6	88.1
Long-term debt due within one year (NOTE 15)	527.4	134.0
	2,962.3	2,490.7
Provisions (NOTE 14)	129.3	105.8
Long-term debt (NOTE 15)	1,139.5	1,736.8
Other long-term liabilities (NOTE 16)	158.6	141.7
Employee future benefits (NOTE 17)	361.2	374.0
Deferred tax liabilities (NOTE 13)	141.3	143.8
	4,892.2	4,992.8
SHAREHOLDERS' EQUITY		
Capital stock (NOTE 18)	2,039.5	2,034.4
Contributed surplus	22.9	25.3
Retained earnings	1,627.9	1,572.8
Accumulated other comprehensive income	12.5	11.7
	3,702.8	3,644.2
Non-controlling interest	67.0	58.5
	3,769.8	3,702.7
	$ 8,662.0	$ 8,695.5

See accompanying notes to the consolidated financial statements.

On Behalf of the Board

signed "James Dickson"

James Dickson
Director

signed "Michael Medline"

Michael Medline
Director

CONSOLIDATED STATEMENTS OF EARNINGS

52 Weeks Ended (in millions of Canadian dollars, except share and per share amounts)	May 5, 2018	May 6, 2017
Sales	$ 24,214.6	$ 23,806.2
Other income (NOTE 19)	61.2	48.2
Share of earnings from investments, at equity (NOTE 7)	74.3	77.5
Operating expenses		
Cost of sales	18,314.1	18,099.0
Selling and administrative expenses	5,689.5	5,499.9
Operating income	346.5	333.0
Finance costs, net (NOTE 21)	110.5	118.0
Earnings before income taxes	236.0	215.0
Income tax expense (NOTE 13)	56.2	42.5
Net earnings	$ 179.8	$ 172.5
Earnings for the year attributable to:		
Non-controlling interest	$ 20.3	$ 14.0
Owners of the Company	159.5	158.5
	$ 179.8	$ 172.5
Earnings per share (NOTE 22)		
Basic	$ 0.59	$ 0.58
Diluted	$ 0.59	$ 0.58
Weighted average number of common shares outstanding, in millions (NOTE 22)		
Basic	271.8	271.9
Diluted	272.1	272.0

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

52 Weeks Ended (in millions of Canadian dollars)	May 5, 2018	May 6, 2017
Net earnings	$ 179.8	$ 172.5
Other comprehensive income (loss)		
Items that will be reclassified subsequently to net earnings		
Unrealized gains (losses) on derivatives designated as cash flow hedges (net of taxes of $(0.3) (2017 – $0.2))	1.2	(0.7)
Unrealized (losses) gains on available for sale financial assets (net of taxes of $0.2 (2017 – $(0.1)))	(0.8)	0.3
Share of other comprehensive income of investments, at equity (net of taxes of $(0.9) (2017 – $(0.2)))	2.0	0.5
Exchange differences on translation of foreign operations (net of taxes of $(0.4) (2017 – $0.6))	(1.6)	1.7
	0.8	1.8
Items that will not be reclassified subsequently to net earnings		
Actuarial gains (losses) on defined benefit plans (net of taxes of $(4.9) (2017 – $7.9)) (NOTE 17)	9.6	(20.8)
Total comprehensive income	$ 190.2	$ 153.5
Total comprehensive income for the year attributable to:		
Non-controlling interest	$ 20.3	$ 14.0
Owners of the Company	169.9	139.5
	$ 190.2	$ 153.5

See accompanying notes to the consolidated financial statements.

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 7, 2016	$ 2,045.1	$ 22.5	$ 9.9	$ 1,546.4	$ 3,623.9	$ 59.1	$ 3,683.0
Dividends declared on common shares	–	–	–	(111.3)	(111.3)	–	(111.3)
Equity based compensation, net	–	2.8	–	–	2.8	–	2.8
Acquisition of shares held in trust (NOTE 18)	(10.7)	–	–	–	(10.7)	–	(10.7)
Capital transactions with structured entities	–	–	–	–	–	(14.6)	(14.6)
Transactions with owners	(10.7)	2.8	–	(111.3)	(119.2)	(14.6)	(133.8)
Net earnings	–	–	–	158.5	158.5	14.0	172.5
Other comprehensive loss	–	–	1.8	(20.8)	(19.0)	–	(19.0)
Total comprehensive income for the year	–	–	1.8	137.7	139.5	14.0	153.5
Balance at May 6, 2017	$ 2,034.4	$ 25.3	$ 11.7	$ 1,572.8	$ 3,644.2	$ 58.5	$ 3,702.7
Dividends declared on common shares	–	–	–	(114.0)	(114.0)	–	(114.0)
Equity based compensation, net	0.4	(2.4)	–	–	(2.0)	–	(2.0)
Shares held in trust, net (NOTE 18)	4.7	–	–	–	4.7	–	4.7
Capital transactions with structured entities	–	–	–	–	–	(11.8)	(11.8)
Transactions with owners	5.1	(2.4)	–	(114.0)	(111.3)	(11.8)	(123.1)
Net earnings	–	–	–	159.5	159.5	20.3	179.8
Other comprehensive income	–	–	0.8	9.6	10.4	–	10.4
Total comprehensive income for the year	–	–	0.8	169.1	169.9	20.3	190.2
Balance at May 5, 2018	$ 2,039.5	$ 22.9	$ 12.5	$ 1,627.9	$ 3,702.8	$ 67.0	$ 3,769.8

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

52 Weeks Ended (in millions of Canadian dollars)	May 5, 2018	May 6, 2017
Operations		
Net earnings	$ 179.8	$ 172.5
Adjustments for:		
Depreciation	351.8	355.5
Income tax expense	56.2	42.5
Finance costs, net (NOTE 21)	110.5	118.0
Amortization of intangibles	87.4	88.7
Net gain on disposal of assets	(37.3)	(21.3)
Impairment of non-financial assets, net	9.2	27.5
Amortization of deferred items	7.2	12.8
Equity in earnings of other entities, net of distributions received	69.1	19.9
Employee future benefits	1.5	8.5
Increase in long-term lease obligation	11.2	13.9
Increase (decrease) in long-term provisions	15.8	(35.4)
Equity based compensation, net	6.9	3.3
Net change in non-cash working capital	88.1	0.5
Income taxes paid, net	(77.7)	(98.4)
Cash flows from operating activities	879.7	708.5
Investment		
Increase in investments	–	(0.4)
Property, equipment and investment property purchases	(239.8)	(460.7)
Proceeds on disposal of assets	217.2	425.7
Additions to intangibles	(48.2)	(53.8)
Loans and other receivables	6.1	12.3
Tenant inducements	–	58.8
Other assets and other long-term liabilities	2.9	2.7
Business acquisitions	(3.8)	(21.9)
Interest received	1.9	1.6
Proceeds on redemption of investment	24.3	–
Cash flows used in investing activities	(39.4)	(35.7)
Financing		
Issue of long-term debt	63.7	55.6
Repayment of long-term debt	(188.2)	(397.2)
Net repayment of credit facilities	(81.9)	(165.0)
Interest paid	(87.4)	(87.0)
Acquisition of shares held in trust (NOTE 18)	(0.1)	(10.7)
Dividends paid, common shares	(114.0)	(111.3)
Non-controlling interest	(11.8)	(14.6)
Cash flows used in financing activities	(419.7)	(730.2)
Increase (decrease) in cash and cash equivalents	420.6	(57.4)
Cash and cash equivalents, beginning of year	207.3	264.7
Cash and cash equivalents, end of year	$ 627.9	$ 207.3

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 5, 2018 (in millions of Canadian dollars, except share and per share amounts)

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 5, 2018 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 5, 2018 the Company's business operations were conducted through its two reportable segments: Food retailing and Investments and other operations, as further described in Note 25, 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 27, 2018.

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: financial instruments (including derivatives) at fair value through profit and loss ("FVTPL"), financial instruments classified as available for sale 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, the classification of leases and 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, and the recognition of provisions.

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.

(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, 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, 10, 11 and 12.

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 a number of 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 17.

(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 13 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

(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 strict 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.

(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.

(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 payable on taxable earnings, which differs from net earnings or loss on the consolidated financial statements. 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 twelve 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, value-in-use 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 value-in-use.

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 Company is required to initially recognize all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value. Loans and receivables, held to maturity financial assets and other financial liabilities are subsequently measured at amortized cost. Derivatives and non-financial derivatives must be recorded at fair value on the consolidated balance sheets unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

The Company classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: (i) FVTPL – measured at fair value with changes in fair value recorded in net earnings or loss; (ii) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings or loss in the period that the asset is derecognized or impaired; (iii) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income or loss for the current period until realized through disposal or impairment; and (iv) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings or loss in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: (i) FVTPL – measured at fair value with changes in fair value recorded in net earnings or loss and (ii) other liabilities – measured at amortized cost with gains and losses recognized in net earnings or loss in the period that the liability is derecognized.

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

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

All financial assets are reviewed for impairment at each reporting date, except those classified as FVTPL. Loans and receivables are reviewed for past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchisee or affiliate locations.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition and amortized using the effective interest method.

Fair value determination is classified within a three-level hierarchy, based on observability of significant inputs, as follows: Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or Level 3 – unobservable inputs for the asset or liability. Inputs into the determination of the fair value require management judgment or estimation.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes to valuation methods may result in transfers into or out of an investment's assigned level.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

(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 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 of these 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.

Buildings that are leasehold property are also included in property and equipment if they are classified as a finance lease. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

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

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.

(i) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

(ii) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included on the consolidated balance sheets as a finance lease obligation in long-term debt.

Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in net earnings or loss immediately. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Lease allowances and incentives are recognized as other long-term liabilities. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

Real estate lease expense is amortized on a straight-line basis over the entire term of the lease.

(iii) Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in a finance lease for the Company, any excess of sales proceeds over the carrying amount is recognized as deferred revenue and amortized over the term of the new lease. Any profit or loss in a sale and leaseback transaction resulting in an operating lease that is transacted at fair value is recognized immediately. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the new lease.

(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
Off market leases	Lesser of lease term and 40 years
Prescription files	15 years
Software	3 – 7 years
Other	5 – 10 years

Amortization has been included within selling and administrative expenses on the consolidated statements of earnings. Subsequent 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 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. 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®.

(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 and gains on sale and leaseback transactions relating to certain finance leases. Deferred revenue is included in other long-term liabilities and is taken into 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.

Re-measurements, 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. Re-measurements 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

Sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company and consolidated SEs, and revenue from sales to non-SE franchised stores, affiliated stores and independent accounts. Revenue received from non-SE 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 weekly upon invoicing based on the franchisee's retail sales.

(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 26).

(AB) CHANGES TO ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2018

(i) Statement of cash flows

In January 2016, the IASB issued Disclosure Initiative Amendments to IAS 7, "Statement of cash flows". These amendments require entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash and non-cash changes. These amendments became effective during the first quarter of fiscal 2018 and had no material impact on the Company's consolidated financial statements. A reconciliation of long-term debt has been presented in Note 15.

(ii) Share-based payment

In June 2016, the IASB issued amendments to IFRS 2, "Share-based payment". The amendments provide clarification around the effects of vesting conditions on cash-settled share-based payment transactions, classification of share-based payment transactions with net settlement features and modification of the terms and conditions of a share-based payment that changes the classification of the transaction. These amendments are effective for annual periods beginning on or after January 1, 2018. The Company early adopted these amendments in the first quarter of fiscal 2018.

(AC) FUTURE STANDARDS

(i) Financial instruments

In July 2014, the IASB issued IFRS 9, "Financial instruments" ("IFRS 9"), which replaces IAS 39, "Financial instruments: recognition and measurement" ("IAS 39") and related interpretations. IFRS 9 provides revised guidance on the classification and measurement of financial assets and financial liabilities, including impairment. IFRS 9 also introduces a new hedge accounting model and amendments to clarify the treatment of modifications of financial liabilities. The standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively, with the exception of the hedging component which is to be applied prospectively. Early adoption is permitted, however, the Company did not elect to do so. The standard will be applied in fiscal 2019, and the Company does not expect a significant adjustment to its consolidated financial statements as a result of the adoption of this standard, as outlined below.

Classification and measurement
IFRS 9 requires financial assets to be classified and measured based on both the business model for managing the asset, and the nature of the cash flows. The classification and measurement of financial liabilities remains largely unchanged from IAS 39. The application of the new classification requirements under IFRS 9 are not expected to result in a significant adjustment to the Company's consolidated financial statements.

Impairment
IFRS 9 introduces a new expected credit loss ("ECL") impairment model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. Under the IFRS 9 ECL model, the Company will recognize upfront impairment losses based on past events, current conditions, and reasonable and supportable forecasts affecting collectability. The application of the ECL model under IFRS 9 is not expected to result in a significant adjustment to the Company's consolidated financial statements.

Hedge accounting
IFRS 9 introduces a new hedge accounting model that aligns hedge accounting relationships with corresponding risk management activities. The new hedge accounting requirements are not expected to result in a significant adjustment to the Company's consolidated financial statements.

Modification of financial liabilities
In October 2017, the IASB issued "Prepayment features with negative compensation" as an amendment to IFRS 9. The amendment clarifies the accounting treatment for modifications of financial liabilities and requires a financial liability measured at amortized cost to be remeasured when a modification occurs. Any resulting gain or loss is required to be recognized in profit or loss at the date of modification. The amendment is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. The Company does not expect this amendment to result in a significant adjustment to the Company's consolidated financial statements.

Disclosure
Financial instrument disclosures continue to fall within the scope of IFRS 7 "Financial instruments: disclosures" ("IFRS 7"). IFRS 7 has been amended by IFRS 9 to include additional qualitative and quantitative disclosure requirements. The Company intends to apply these amendments in fiscal 2019. The amendments are not expected to result in a significant adjustment to the Company's consolidated financial statement disclosures.

(ii) Revenue

In May 2014, the IASB issued IFRS 15, "Revenue from contracts with customers" ("IFRS 15"). IFRS 15 replaces IAS 18, "Revenue" ("IAS 18"), IAS 11, "Construction contracts", and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted, however, the Company did not elect to do so.

In April 2016, the IASB published clarifications to IFRS 15 which addresses three topics (identifying performance obligations, principle versus agent considerations, and licensing) as well as provides some transition relief for modified and completed contracts. The implementation timelines for these clarifications are consistent with IFRS 15.

The Company expects to adopt IFRS 15 in fiscal 2019 on a full retrospective basis and does not expect the implementation to result in a significant adjustment to the Company's consolidated financial statements.

(iii) Leases

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17, "Leases" ("IAS 17") and related interpretations. IFRS 16 introduces a balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors will continue to classify leases as operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 allows for early adoption for companies that apply IFRS 15, but the Company does not intend to do so. For leases where the Company is the lessee, the IFRS 16 transition requirements provide the option of adopting a full retrospective approach or a modified retrospective approach with optional practical expedients available. The Company has performed preliminary modeling as part of its assessment of IFRS 16 transition approaches, and intends to adopt the standard on a modified retrospective basis. The Company continues to finalize its approach on the use of the optional practical expedients.

The Company expects that the adoption of IFRS 16 will have a material impact on its consolidated financial statements, given the current operating lease commitments held under IAS 17 as a lessee. New assets and liabilities will be recognized on the balance sheet for the Company's operating property and equipment leases. On the statement of earnings, the Company will replace the current straight-line lease expense recognized in operating expenses with depreciation for right-of-use assets and finance expense on lease liabilities. The presentation of lease related cash flows on the statement of cash flows will also change, with no change to the amount of cash exchanged as part of the underlying lease transaction.

The Company continues to evaluate the impact of this standard on its consolidated financial statements.

(iv) Investments in associates and joint ventures

In October 2017, the IASB issued an amendment to IAS 28 "Investments in associates and joint ventures" to clarify that an entity must apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture where the equity method is not applied. The amendment is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the potential impact of this amendment.

(v) Annual improvements 2015–2017

The IASB issued amendments to IFRS 3 "Business combinations", IFRS 11 "Joint arrangements", IAS 12 "Income taxes" and IAS 23 "Borrowing costs" in December 2017. These amendments are effective for annual periods beginning on or after January 1, 2019. The Company is assessing the potential impacts of these amendments.

4. Inventories

The cost of inventories recognized as an expense during the year was $18,314.1 (2017 – $18,099.0). The Company recorded $1.5 (2017 – $3.5) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 5, 2018. There were no reversals of inventories written down previously (2017 – $ nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Loans and other receivables

	May 5, 2018	May 6, 2017
Loans receivable	$ 64.1	$ 64.8
Notes receivable and other	37.4	42.8
	101.5	107.6
Less amount due within one year	20.9	25.5
	$ 80.6	$ 82.1

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.

Included in notes receivable and other as at May 5, 2018, is $11.8 (2017 – $13.2) due from a third party related to equipment sales.

6. Assets held for sale

As at May 5, 2018, 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 2018, Sobeys sold nine properties to third parties. Total proceeds from these transactions were $56.7, resulting in a pre-tax gain of $8.5 which has been recognized on the consolidated statements of earnings.

During fiscal 2017, Sobeys sold 13 properties and leased back four from third parties. Total proceeds from these transactions were $66.9, resulting in a pre-tax gain of $4.5 which has been recognized on the consolidated statements of earnings.

On June 29, 2016, Sobeys and its wholly-owned subsidiaries closed an agreement with Crombie Real Estate Investment Trust ("Crombie REIT"), an entity in which the Company has a 41.5% ownership, to sell and leaseback a portfolio of 19 retail properties and a 50% interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire (Note 27).

7. Investments, at equity

	May 5, 2018	May 6, 2017
Investment in associates		
Crombie REIT	$ 448.5	$ 459.1
Canadian real estate partnerships	90.7	143.0
U.S. real estate partnerships	23.2	36.8
Investment in joint ventures		
Canadian Digital Cinema Partnership ("CDCP")	9.4	9.5
Total	$ 571.8	$ 648.4

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

	May 5, 2018	May 6, 2017
Crombie REIT	$ 777.1	$ 883.6

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

The Company owns 61,864,162 Class B LP units and attached special voting units of Crombie REIT, along with 909,090 REIT units, representing a 41.5% (2017 – 41.5%) economic and voting interest in Crombie REIT.

Crombie REIT has instituted 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.

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

	May 5, 2018	May 6, 2017
Balance, beginning of year	$ 459.1	$ 366.8
Equity earnings	39.5	41.5
Share of comprehensive income	2.9	0.7
Distributions, net of DRIP	(43.7)	(42.8)
Deferral of gains on sale of property	(9.3)	(2.2)
Reversal of deferred gain on sale of property to unrelated party	–	1.7
Interest acquired in Crombie REIT	–	93.4
Balance, end of year	$ 448.5	$ 459.1

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

	May 5, 2018	May 6, 2017
Balance, beginning of year	$ 143.0	$ 148.5
Equity earnings	24.6	28.2
Distributions	(76.9)	(33.7)
Balance, end of year	$ 90.7	$ 143.0

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

	May 5, 2018	May 6, 2017
Balance, beginning of year	$ 36.8	$ 50.2
Equity earnings	9.3	6.9
Distributions	(21.7)	(20.1)
Foreign currency translation adjustment	(1.2)	1.1
Investment	–	0.4
Dilution loss (NOTE 19)	–	(1.7)
Balance, end of year	$ 23.2	$ 36.8

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

	May 5, 2018	May 6, 2017
Balance, beginning of year	$ 9.5	$ 9.4
Equity earnings	0.9	0.9
Distributions	(1.0)	(0.8)
Balance, end of year	$ 9.4	$ 9.5

The following amounts represent the revenues, expenses, assets, and liabilities of Crombie REIT as at and for the 12 months ended March 31, 2018, 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, 2018	March 31, 2017
Revenues	$ 415.4	$ 407.2
Expenses	323.4	305.7
Earnings before income taxes	$ 92.0	$ 101.5
Income (loss) from continuing operations	$ 36.7	$ (28.3)
Other comprehensive income	6.7	1.3
Total comprehensive income (loss)	$ 43.4	$ (27.0)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	March 31, 2018	March 31, 2017
Assets		
Current	$ 22.9	$ 35.7
Non-current	4,026.7	3,916.6
Total	$ 4,049.6	$ 3,952.3
Liabilities		
Current	$ 359.1	$ 205.1
Non-current	2,234.9	2,363.2
Total	$ 2,594.0	$ 2,568.3
Unitholders' net assets		
REIT Units	$ 872.3	$ 830.5
Class B LP Units	583.3	553.5
	1,455.6	1,384.0
Less total REIT Units outstanding as at March 31, 2018	(872.3)	(830.5)
Cumulative changes since acquisition of Crombie REIT		
Variances in timing of distributions	4.6	4.5
Issue costs related to Class B LP Units	12.6	12.6
Deferred gains (net of depreciation addback)	(172.4)	(163.4)
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)	–
Carrying amount attributable to investment in Class B LP Units	435.7	446.5
REIT Units owned by Empire	13.8	13.8
Cumulative equity earnings on REIT Units	3.4	2.4
Cumulative distributions on REIT Units	(4.4)	(3.6)
Empire's carrying amount of investment in Crombie REIT	$ 448.5	$ 459.1

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, 2018:

	March 31, 2018	March 31, 2017
Revenues	$ 161.9	$ 131.6
Expenses	103.2	77.9
Net earnings from continuing operations	$ 58.7	$ 53.7
Net earnings from discontinued operations	–	15.4
Net earnings	$ 58.7	$ 69.1

	March 31, 2018	March 31, 2017
Current assets	$ 270.3	$ 330.4
Current liabilities	61.7	36.1
Net assets	$ 208.6	$ 294.3
Carrying amount of investment	$ 90.7	$ 143.0

The Company has interests in various U.S. real estate partnerships ranging from 37.1% to 42.1% which are involved in residential property developments in the United States.

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, 2018:

	March 31, 2018	March 31, 2017
Revenues	$ 67.7	$ 51.9
Expenses	44.6	34.3
Net earnings	$ 23.1	$ 17.6

	March 31, 2018	March 31, 2017
Current assets	$ 67.3	$ 104.7
Current liabilities	5.2	6.0
Net assets	$ 62.1	$ 98.7
Carrying amount of investment	$ 23.2	$ 36.8

8. Other assets

	May 5, 2018	May 6, 2017
Deferred lease assets	$ 18.5	$ 20.3
Derivative assets	–	1.1
Deferred financing costs	1.8	5.5
Other	13.8	16.4
Total	$ 34.1	$ 43.3

9. Property and equipment

May 5, 2018	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 537.8	$ 1,313.3	$ 2,427.3	$ 700.3	$ 348.1	$ 5,326.8
Additions	2.5	9.4	101.5	13.4	147.9	274.7
Additions from business acquisitions	–	–	1.3	–	–	1.3
Transfers	(16.6)	27.2	221.1	39.8	(417.2)	(145.7)
Disposals and write downs	(12.5)	(40.6)	(203.8)	(52.6)	–	(309.5)
Closing balance	$ 511.2	$ 1,309.3	$ 2,547.4	$ 700.9	$ 78.8	$ 5,147.6
Accumulated depreciation and impairment losses						
Opening balance	$ –	$ 448.9	$ 1,411.3	$ 433.3	$ –	$ 2,293.5
Disposals and write downs	–	(17.1)	(188.9)	(50.2)	–	(256.2)
Transfers	–	(29.7)	(9.4)	2.4	–	(36.7)
Depreciation	–	59.5	239.8	50.9	–	350.2
Impairment losses	–	2.4	6.6	0.5	–	9.5
Closing balance	$ –	$ 464.0	$ 1,459.4	$ 436.9	$ –	$ 2,360.3
Net carrying value as at May 5, 2018	$ 511.2	$ 845.3	$ 1,088.0	$ 264.0	$ 78.8	$ 2,787.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 6, 2017	Land	Buildings	Equipment	Leasehold Improvements	Assets Under Construction	Total
Cost						
Opening balance	$ 625.1	$ 1,295.5	$ 2,499.3	$ 703.9	$ 296.8	$ 5,420.6
Additions	10.6	10.6	125.6	34.6	299.6	481.0
Additions from business acquisitions	–	–	5.6	–	–	5.6
Transfers	(45.8)	32.4	20.3	3.3	(246.4)	(236.2)
Disposals and write downs	(52.1)	(25.2)	(223.5)	(41.5)	(1.9)	(344.2)
Closing balance	$ 537.8	$ 1,313.3	$ 2,427.3	$ 700.3	$ 348.1	$ 5,326.8
Accumulated depreciation and impairment losses						
Opening balance	$ –	$ 403.5	$ 1,438.0	$ 434.4	$ –	$ 2,275.9
Disposals and write downs	–	(11.5)	(214.8)	(40.3)	–	(266.6)
Transfers	–	(7.7)	(66.2)	(15.3)	–	(89.2)
Depreciation	–	61.3	240.5	53.0	–	354.8
Impairment losses	–	3.3	14.1	1.6	–	19.0
Impairment reversals	–	–	(0.3)	(0.1)	–	(0.4)
Closing balance	$ –	$ 448.9	$ 1,411.3	$ 433.3	$ –	$ 2,293.5
Net carrying value as at May 6, 2017	$ 537.8	$ 864.4	$ 1,016.0	$ 267.0	$ 348.1	$ 3,033.3

FINANCE LEASES

The Company has various property leases for store locations classified as finance leases with a net carrying value of $9.8 as at May 5, 2018 (2017 – $11.3). These leases are included in Buildings.

The Company has equipment leases classified as finance leases with a net carrying value of $11.2 as at May 5, 2018 (2017 – $15.8). These leases are included in Equipment.

ASSETS UNDER CONSTRUCTION

During the year, the Company capitalized borrowing costs of $0.5 (2017 – $2.2) on indebtedness related to property and equipment under construction. The Company used a capitalization rate of 4.7% (2017 – 4.8%).

SECURITY

As at May 5, 2018, the net carrying value of property pledged as security for borrowings is $57.1 (2017 – $62.2).

IMPAIRMENT OF PROPERTY AND EQUIPMENT

The Company performed the 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. 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 9.0% to 12.0%.

Impairment losses of $9.5 and reversals of $ nil were recorded during the year ended May 5, 2018 (2017 – $19.0 and $0.4).

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

10. 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 5, 2018	May 6, 2017
Cost		
Opening balance	$ 119.0	$ 91.4
Additions	3.0	0.2
Transfers	(5.6)	29.5
Disposals and write downs	(3.6)	(2.1)
Closing balance	$ 112.8	$ 119.0
Accumulated depreciation and impairment losses		
Opening balance	$ 16.0	$ 8.5
Depreciation	1.6	0.7
Impairment expense	0.4	2.3
Transfers	0.9	5.0
Disposals and write downs	–	(0.5)
Closing balance	$ 18.9	$ 16.0
Net carrying value	$ 93.9	$ 103.0
Fair value	$ 158.2	$ 136.7

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 property at May 5, 2018 and May 6, 2017. 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 on the consolidated statements of earnings amounted to $3.0 for the year ended May 5, 2018 (2017 – $3.6).

Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from investment property that generated rental income amounted to $2.0 for the year ended May 5, 2018 (2017 – $2.3). Direct operating expenses (including repairs and maintenance but excluding depreciation expense) arising from non-income producing investment property amounted to $1.9 for the year ended May 5, 2018 (2017 – $1.0). 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 $0.4 and reversals of $ nil were recorded during the year ended May 5, 2018 (2017 – $2.3 and $ nil).

11. Intangibles

May 5, 2018	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	$ 201.0	$ 151.2	$ 303.3	$ 277.6	$ 173.1	$ 209.2	$ 1,315.4
Additions, separately acquired	–	14.7	–	14.9	–	2.1	31.7
Transfers	–	0.7	0.8	14.0	(0.2)	0.2	15.5
Disposals and write downs	–	(5.6)	–	(18.6)	(0.5)	(4.3)	(29.0)
Closing balance	$ 201.0	$ 161.0	$ 304.1	$ 287.9	$ 172.4	$ 207.2	$ 1,333.6
Accumulated amortization and impairment losses							
Opening balance	$ 28.1	$ 72.5	$ 86.6	$ 146.2	$ 25.2	$ 76.3	$ 434.9
Amortization	0.1	15.9	19.5	35.6	7.5	8.8	87.4
Impairment reversals	–	–	(0.7)	–	–	–	(0.7)
Transfers	–	(1.9)	1.4	(1.6)	–	1.9	(0.2)
Disposals and write downs	–	(5.3)	(1.1)	(18.6)	(0.5)	(4.3)	(29.8)
Closing balance	$ 28.2	$ 81.2	$ 105.7	$ 161.6	$ 32.2	$ 82.7	$ 491.6
Net carrying value as at May 5, 2018	$ 172.8	$ 79.8	$ 198.4	$ 126.3	$ 140.2	$ 124.5	$ 842.0

May 6, 2017	Brand Names	Deferred Purchase Agreements	Prescription Files	Software	Off Market Leases	Other	Total
Cost							
Opening balance	$ 201.0	$ 143.0	$ 305.2	$ 258.8	$ 179.8	$ 199.5	$ 1,287.3
Additions, separately acquired	–	10.5	–	1.1	–	12.5	24.1
Additions from business acquisitions	–	–	0.5	–	–	3.0	3.5
Transfers	–	0.7	(1.9)	35.5	0.5	0.3	35.1
Disposals and write downs	–	(3.0)	(0.5)	(17.8)	(7.2)	(6.1)	(34.6)
Closing balance	$ 201.0	$ 151.2	$ 303.3	$ 277.6	$ 173.1	$ 209.2	$ 1,315.4
Accumulated amortization and impairment losses							
Opening balance	$ 26.1	$ 58.9	$ 68.7	$ 128.8	$ 18.9	$ 74.4	$ 375.8
Amortization	2.0	16.3	20.5	35.1	7.0	7.8	88.7
Impairment reversals	–	–	(0.4)	–	–	–	(0.4)
Transfers	–	0.1	(1.7)	(0.1)	0.5	0.1	(1.1)
Disposals and write downs	–	(2.8)	(0.5)	(17.6)	(1.2)	(6.0)	(28.1)
Closing balance	$ 28.1	$ 72.5	$ 86.6	$ 146.2	$ 25.2	$ 76.3	$ 434.9
Net carrying value as at May 6, 2017	$ 172.9	$ 78.7	$ 216.7	$ 131.4	$ 147.9	$ 132.9	$ 880.5

Included in other intangibles at May 5, 2018 are liquor licenses of $5.4 (2017 – $5.4). 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 5, 2018 and May 6, 2017 are the following amounts with indefinite useful lives: Loyalty programs – $11.4 (2017 – $11.4) and Private labels – $59.5 (2017 – $59.5). The Company has also determined that Brand names with a net carrying value of $172.8 (2017 – $172.8) 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 12).

Impairment of intangibles follows the same methodology as property and equipment (Note 3(q)). For the year ended May 5, 2018, impairment losses of $ nil (2017 – $ nil) and reversals of $0.7 were recorded (2017 – $0.4).

12. Goodwill

	May 5, 2018	May 6, 2017
Opening balance	$ 1,003.4	$ 998.7
Additions from business acquisitions	0.4	5.8
Impairments	–	(0.9)
Other adjustments	(1.9)	(0.2)
Closing balance	$ 1,001.9	$ 1,003.4

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 five food retailing operating segments:

	May 5, 2018	May 6, 2017
Atlantic	$ 193.8	$ 193.8
Lawtons	17.1	17.1
Ontario	173.0	172.6
Quebec	615.6	617.5
West	2.4	2.4
Total	$ 1,001.9	$ 1,003.4

IMPAIRMENT OF GOODWILL

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 2018, and resulted in an impairment of $ nil being recorded (2017 – $0.9). In performing the review, the Company determined the recoverable amount of the CGU to which goodwill relates based on FVLCD. The key assumptions used by management to determine the fair value of the CGU includes industry earnings multiples in a range from 7.0 to 14.0 and is classified as Level 2 on the fair value hierarchy.

13. 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 5, 2018	May 6, 2017
Earnings before income taxes	$ 236.0	$ 215.0
Effective combined statutory income tax rate	27.1%	27.0%
Income tax expense according to combined statutory income tax rate	64.0	58.1
Income taxes resulting from:		
Non-deductible items	0.1	1.3
Non-taxable items	(2.9)	(4.0)
Change in tax rates and subsidiary rate differential	(12.8)	(1.8)
Change in tax legislation	–	(7.7)
Impact of equity investment transaction	5.0	–
Other	2.8	(3.4)
Total income tax expense, combined effective tax rate of 23.8% (2017 – 19.8%)	$ 56.2	$ 42.5

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

	May 5, 2018	May 6, 2017
Current tax expense	$ 109.5	$ 96.3
Deferred tax recovery:		
Origination and reversal of temporary differences	(40.5)	(52.0)
Change in tax rates	(12.8)	(1.8)
Total	$ 56.2	$ 42.5

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

		Recognized in:			
May 5, 2018	Opening Balance	Other Comprehensive Income and Equity	Business Acquisitions	Net Earnings	Closing Balance
Accounts payable and accrued liabilities	$ (3.7)	$ –	$ –	$ (5.1)	$ (8.8)
Employee future benefits	104.6	(5.2)	–	0.7	100.1
Equity	7.9	–	–	(4.1)	3.8
Goodwill and intangibles	248.0	–	–	36.5	284.5
Inventory	5.1	–	–	(0.2)	4.9
Investments	(34.0)	(1.1)	–	(4.8)	(39.9)
Long-term debt	10.7	–	–	(3.4)	7.3
Other assets	(0.4)	–	–	0.1	(0.3)
Other long-term liabilities	27.2	–	–	2.6	29.8
Property, equipment, and investment property	(38.1)	–	–	(67.1)	(105.2)
Provisions	60.0	–	–	14.4	74.4
Partnership deferral reserve	8.2	–	–	3.4	11.6
Tax loss carry forwards	170.5	–	–	81.0	251.5
Other	0.1	–	–	(0.7)	(0.6)
	$ 566.1	$ (6.3)	$ –	$ 53.3	$ 613.1
Recognized as:					
Deferred tax assets	$ 709.9	$ –	$ –	$ 44.5	$ 754.4
Deferred tax liabilities	$ (143.8)	$ (6.3)	$ –	$ 8.8	$ (141.3)

		Recognized in:			
May 6, 2017	Opening Balance	Other Comprehensive Income and Equity	Business Acquisitions	Net Earnings	Closing Balance
Accounts payable and accrued liabilities	$ 3.6	$ –	$ –	$ (7.3)	$ (3.7)
Employee future benefits	91.9	8.2	–	4.5	104.6
Equity	12.3	–	–	(4.4)	7.9
Goodwill and intangibles	293.6	–	(0.2)	(45.4)	248.0
Inventory	4.9	–	–	0.2	5.1
Investments	(33.1)	(0.2)	–	(0.7)	(34.0)
Long-term debt	14.2	–	–	(3.5)	10.7
Other assets	(0.6)	–	–	0.2	(0.4)
Other long-term liabilities	20.6	–	–	6.6	27.2
Property, equipment, and investment property	(58.4)	–	–	20.3	(38.1)
Provisions	86.9	–	–	(26.9)	60.0
Partnership deferral reserve	(8.2)	–	–	16.4	8.2
Tax loss carry forwards	76.6	–	–	93.9	170.5
Other	0.2	–	–	(0.1)	0.1
	$ 504.5	$ 8.0	$ (0.2)	$ 53.8	$ 566.1
Recognized as:					
Deferred tax assets	$ 646.2	$ 8.2	$ –	$ 55.5	$ 709.9
Deferred tax liabilities	$ (141.7)	$ (0.2)	$ (0.2)	$ (1.7)	$ (143.8)

As at May 5, 2018, the Company had approximately $909.0 of Canadian non-capital tax loss carry forwards, which expire between fiscal 2033 and 2038. 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 $478.1.

14. Provisions

May 5, 2018	Lease Contracts	Legal	Environmental	Restructuring	Onerous Contracts	Total
Opening balance	$ 29.9	$ 6.7	$ 49.0	$ 96.3	$ 12.0	$ 193.9
Provisions made	10.3	7.4	0.9	149.4	–	168.0
Provisions used	(11.1)	(4.7)	(1.4)	(72.4)	(0.8)	(90.4)
Provisions reversed	(3.2)	(1.4)	(0.6)	(14.4)	(2.7)	(22.3)
Change due to discounting	1.9	–	1.5	4.3	–	7.7
Closing balance	$ 27.8	$ 8.0	$ 49.4	$ 163.2	$ 8.5	$ 256.9
Current	$ 12.8	$ 8.0	$ 2.4	$ 101.3	$ 3.1	$ 127.6
Non-current	15.0	–	47.0	61.9	5.4	129.3
Total	$ 27.8	$ 8.0	$ 49.4	$ 163.2	$ 8.5	$ 256.9

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 both the lease payment and sublease income received. 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 $8.0 that are outstanding as at May 5, 2018 (2017 – $6.7) 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 gas 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 relate to the Company's initiatives to simplify organizational structures and reduce costs. As a result of these initiatives, a $149.4 restructuring provision has been recorded during the fiscal year ended May 5, 2018. Of this amount, $121.0 relates to a single organizational restructuring initiative and is expected to be utilized until fiscal 2021. These costs have been recorded in selling and administrative expenses on the consolidated statement of earnings. Discounting of restructuring related provisions has been calculated using a pre-tax discount rate of 7.0%.

ONEROUS CONTRACTS

The Company disposed of certain manufacturing facilities in fiscal 2015 and as part of the asset purchase agreement, long-term supply agreements were entered into that contain minimum purchase volume requirements. Under the terms of this asset purchase agreement, should actual purchases for the calendar year ending 2016 differ from minimum volume requirements, the sales price is adjusted up or down based on a volume-driven formula. During the year ended May 6, 2017, the Company paid $55.2 related to these long-term supply agreements where minimum purchase volume requirements for calendar 2016 were not met. The remaining obligation will be recognized until fiscal 2021. Discounting of the sales price adjustment provision has been calculated using a pre-tax discount rate of 7.0%.

15. Long-term debt

	May 5, 2018	May 6, 2017
First mortgage loans, weighted average interest rate 6.05%, due 2021 – 2033	$ 6.7	$ 13.3
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	–	100.0
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 2013-1 Notes, interest rate 3.52%, due August 8, 2018	500.0	500.0
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	137.1	139.0
Credit facilities due November 4, 2020, floating interest rate tied to bankers' acceptance rates	43.1	125.0
	1,636.9	1,827.3
Unamortized transaction costs	(6.0)	(8.5)
Finance lease obligations, weighted average interest rate 6.04%, due 2019 – 2040	36.0	52.0
	1,666.9	1,870.8
Less amount due within one year	527.4	134.0
	$ 1,139.5	$ 1,736.8

First mortgage loans are secured by land, buildings, and specific charges on certain assets. Finance lease obligations are secured by the related finance lease asset. Medium term notes and Series 2013-1 and 2013-2 Notes are unsecured.

On April 22, 2016, the Company extended the term of its $250.0 credit facility to a maturity date of November 4, 2020. As of May 5, 2018, the outstanding amount of the credit facility was $43.1 (2017 – $125.0). Interest payable fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or the London Interbank Offered Rate ("LIBOR").

On June 2, 2017, Sobeys entered a new, senior, unsecured non-revolving credit facility for $500.0. The facility bears floating interest tied to Canadian prime rate or bankers' acceptance rates. The facility is intended to be used to repay long-term debt due in calendar 2018.

Pursuant to an agreement dated April 29, 2016, Sobeys amended and restated its revolving term credit facility ("RT Facility"). The principal amount was increased from $450.0 to $650.0 and Sobeys' previous non-revolving, amortizing term credit facility was fully repaid and cancelled. As of May 5, 2018, the outstanding amount of the RT Facility was $ nil (2017 – $ nil), and Sobeys issued $39.5 in letters of credit against the RT Facility (2017 – $46.3). Interest payable on the RT Facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate, or LIBOR, and the facility matures on November 4, 2020.

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

	May 5, 2018	May 6, 2017
Opening balance	$ 1,870.8	$ 2,367.4
Issuance of debt	63.7	55.6
Repayments	(188.2)	(397.2)
Net repayment of credit facilities	(81.9)	(165.0)
Total cash flow used in long-term debt financing activities	(206.4)	(506.6)
Finance lease additions	–	7.5
Deferred financing costs	2.5	2.5
Closing balance	$ 1,666.9	$ 1,870.8

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

2019	$ 520.1
2020	22.6
2021	52.1
2022	7.1
2023	6.3
Thereafter	1,028.7

FINANCE LEASE LIABILITIES

Finance lease liabilities are payable in each of the next five fiscal years as follows:

	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
2019	$ 9.2	$ 1.9	$ 7.3
2020	7.8	1.6	6.2
2021	5.4	1.2	4.2
2022	3.6	1.0	2.6
2023	3.5	0.9	2.6
Thereafter	18.2	5.1	13.1
Total	$ 47.7	$ 11.7	$ 36.0

During fiscal 2018, there were no additions to the Company's finance lease obligation (2017 – $7.5).

16. Other long-term liabilities

	May 5, 2018	May 6, 2017
Deferred lease obligation	$ **148.2**	$ 127.2
Deferred revenue	**7.0**	9.1
Other	**3.4**	5.4
Total	$ **158.6**	$ 141.7

17. Employee future benefits

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

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 (for example, annuity purchase) can be achieved with the combined total of employee and employer contributions and investment income over the period of plan membership, and the 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 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, 2020
Senior Management Pension Plans	December 31, 2016	December 31, 2019
Other Benefit Plans	January 1, 2016	January 1, 2019

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 16% 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 5, 2018, the Company recognized an expense of $46.3 (2017 – $45.1) in operating income, which represents the contributions made in connection with multi-employer pension plans. During fiscal 2019, 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 $32.1 for the year ended May 5, 2018 (2017 – $32.1).

DEFINED BENEFIT PLANS

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

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Defined benefit obligation				
Balance, beginning of year	$ 890.3	$ 871.2	$ 164.3	$ 152.6
Current service cost, net of employee contributions	1.6	2.3	3.3	3.2
Interest cost	27.3	29.4	5.3	5.2
Benefits paid	(58.7)	(57.7)	(5.6)	(5.2)
Past service costs – plan amendments	–	1.5	–	–
Past service costs – curtailments	(2.9)	–	(0.4)	–
Settlements	1.3	1.0	–	–
Termination benefits	–	2.8	–	–
Remeasurement – actuarial (gains) losses included in other comprehensive income (loss)	(25.7)	39.8	(8.2)	8.5
Balance, end of year	$ 833.2	$ 890.3	$ 158.7	$ 164.3

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Plan assets				
Fair value, beginning of year	$ 680.6	$ 687.0	$ –	$ –
Interest income on plan assets	20.7	23.1	–	–
Remeasurement (loss) return on plan assets (excluding amount in net interest)	(19.4)	19.6	–	–
Employer contributions	9.3	9.8	5.6	5.2
Benefits paid	(58.7)	(57.7)	(5.6)	(5.2)
Administrative costs	(1.8)	(1.2)	–	–
Fair value, end of year	$ 630.7	$ 680.6	$ –	$ –

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Funded status				
Total fair value of plan assets	$ 630.7	$ 680.6	$ –	$ –
Present value of unfunded obligations	(93.2)	(95.7)	(158.7)	(164.3)
Present value of partially funded obligations	(740.0)	(794.6)	–	–
Accrued benefit liabilities	$ (202.5)	$ (209.7)	$ (158.7)	$ (164.3)

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Expenses				
Current service cost, net of employee contributions	$ 1.6	$ 2.3	$ 3.3	$ 3.2
Net interest on net defined benefit liability	6.6	6.3	5.3	5.2
Administrative costs	1.8	1.2	–	–
Past service costs – plan amendments	–	1.5	–	–
Past service costs – curtailments	(2.9)	–	(0.4)	–
Termination benefits	–	2.8	–	–
Settlement loss	1.3	1.0	–	–
Expenses	$ 8.4	$ 15.1	$ 8.2	$ 8.4

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.

Actuarial gains and losses recognized directly in other comprehensive income (loss):

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Remeasurement effects recognized in other comprehensive income (loss)				
Loss (return) on plan assets (excluding amounts in net interest)	$ 19.4	$ (19.6)	$ –	$ –
Actuarial gain – experience changes	(4.1)	(1.2)	–	(0.1)
Actuarial loss – demographic assumptions	–	2.4	–	–
Actuarial (gain) loss – financial assumptions	(21.6)	38.6	(8.2)	8.6
Remeasurement effects recognized in other comprehensive income (loss)	$ 6.3	$ (20.2)	$ 8.2	$ (8.5)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 5, 2018):

	Pension Benefit Plans		Other Benefit Plans	
	May 5, 2018	May 6, 2017	**May 5, 2018**	May 6, 2017
Discount rate	**3.40%**	3.25%	**3.40%**	3.25%
Rate of compensation increase	**3.50%**	3.50%		

For measurement purposes, a 5.50% fiscal 2018 annual rate of increase in the per capita cost of covered health care benefits was assumed (2017 – 5.75%). The cumulative rate expectation to 2020 and thereafter is 5.00%.

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 in regard to medical cost trends, which may vary significantly in future appraisals of the Company's obligations.

The table below outlines the sensitivity of the fiscal 2018 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]	3.40%	3.40%	3.40%	3.40%
Impact of: 1% increase	$ (103.0)	$ (2.8)	$ (19.4)	$ 0.3
Impact of: 1% decrease	$ 130.2	$ 1.3	$ 24.0	$ (0.4)
Growth rate of health care costs[3]			5.50%	5.50%
Impact of: 1% increase			$ 19.7	$ 1.2
Impact of: 1% decrease			$ (16.3)	$ (1.0)

(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 5.00% in 2020 and remaining at that level thereafter.

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

	May 5, 2018	May 6, 2017
Canadian equity funds	**6.6%**	8.8%
Foreign equity funds	**14.1%**	11.7%
Fixed income funds	**79.1%**	79.2%
Net working capital	**0.2%**	0.3%
Total investments	**100.0%**	100.0%

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 5, 2018	**% of Plan Assets**	May 6, 2017	% of Plan Assets
Empire Company Limited Non-Voting Class A shares	**$ 9.9**	**1.5%**	$ 8.9	1.3%

All of 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 (loss) return on plan assets was $(0.5) for the year ended May 5, 2018 (2017 – $41.5).

Management's best estimate of contributions expected to be paid to the defined benefit pension plans during the annual period beginning on May 6, 2018 and ending on May 4, 2019 is $26.7.

18. Capital stock

Authorized	Number of Shares May 5, 2018	May 6, 2017
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	991,980,000
Non-Voting Class A shares, without par value	768,105,849	768,105,849
Class B common shares, without par value, voting	122,400,000	122,400,000

Issued and outstanding	Number of Shares	May 5, 2018	May 6, 2017
Non-Voting Class A shares, without par value	173,547,591	$ 2,038.2	$ 2,037.8
Class B common shares, without par value, voting	98,138,079	7.3	7.3
Shares held in trust	(308,504)	(6.0)	(10.7)
Total		$ 2,039.5	$ 2,034.4

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 2018, the Company paid common dividends of $114.0 (2017 – $111.3) to its equity holders. This represents a payment of $0.42 per share (2017 – $0.41 per share) for common share holders.

During the second quarter of fiscal 2017, the Company established a trust fund to facilitate the purchase of Non-Voting Class A shares for the future settlement of vested units under the Company's equity settled stock-based compensation plans. Contributions to the trust fund and the Non-Voting Class A shares purchased are held by AST Trust Company (Canada) as trustee. The trust fund is 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:

Shares held in trust	Number of Shares	May 5, 2018	May 6, 2017
Balance, beginning of year	(555,409)	$ (10.7)	$ –
Purchased	(5,683)	(0.1)	(10.7)
Issued	252,588	4.8	–
Balance, end of year	(308,504)	$ (6.0)	$ (10.7)

19. Other income

	May 5, 2018	May 6, 2017
Net gain on disposal of assets	$ 37.3	$ 23.0
Lease revenue from owned property	23.9	26.9
Dilution losses	–	(1.7)
Total	$ 61.2	$ 48.2

20. Employee benefits expense

	May 5, 2018	May 6, 2017
Wages, salaries and other short-term employment benefits	$ 3,101.7	$ 3,078.3
Post-employment benefits	36.8	44.2
Termination benefits	121.6	14.9
Total	$ 3,260.1	$ 3,137.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Finance costs, net

	May 5, 2018	May 6, 2017
Finance income		
Interest income from cash and cash equivalents	$ 1.9	$ 0.4
Fair value gains on forward contracts	3.2	3.3
Investment income	0.2	1.2
Accretion income on loans and other receivables	0.7	1.2
Total finance income	6.0	6.1
Finance costs		
Interest expense on financial liabilities measured at amortized cost	96.9	103.1
Net pension finance costs	11.9	11.5
Accretion expense on provisions	7.7	9.5
Total finance costs	116.5	124.1
Finance costs, net	$ 110.5	$ 118.0

22. Earnings per share

	May 5, 2018	May 6, 2017
Weighted average number of shares – basic (Note 18)	271,783,850	271,948,133
Shares deemed to be issued for no consideration in respect of stock-based payments	278,417	3,374
Weighted average number of shares – diluted	272,062,267	271,951,507

23. Guarantees, commitments and contingent liabilities

GUARANTEES

Franchisees and affiliates

Sobeys is party to a number of 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 2017, Sobeys had a guarantee contract under the terms of which, should certain franchisees and affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 or 9.9% of the authorized and outstanding obligation. During the year ended May 6, 2017, the guarantee contract expired.

During fiscal 2017, Sobeys had guaranteed certain equipment leases of its franchisees and affiliates. Under the terms of the guarantee, should franchisees and affiliates be unable to fulfill their equipment lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of $145.0 on a cumulative basis. During the year ended May 6, 2017, the guarantee contract expired.

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% (2017 – $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 revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain franchisees and affiliates. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SEs. As at May 5, 2018, the amount of the guarantee was $6.0 (2017 – $6.0).

Other

At May 5, 2018, the Company had entered into letters of credit issued in the aggregate amount of $52.7 (2017 – $62.2) to support the Company's obligations.

Sobeys, through its subsidiaries, has guaranteed the payment of obligations under certain commercial development agreements. As at May 5, 2018, Sobeys has guaranteed $43.5 (2017 – $43.5) in obligations related to these agreements.

Upon entering into the lease of its Mississauga distribution centre, in March 2000, Sobeys guaranteed to the landlord the performance, by SERCA Foodservice Inc. (formerly a subsidiary of Sobeys Inc.), of all its obligations under the lease. The remaining term of the lease is two years with an aggregate obligation of $7.4 (2017 – $10.4). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

COMMITMENTS

Operating leases, as lessee

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

The total net, future minimum rent payable under the Company's operating leases as of May 5, 2018 is approximately $4,551.6. This reflects a gross lease obligation of $5,534.0 reduced by expected sub-lease income of $982.4. The net commitments over the next five fiscal years are:

	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2019	$ 256.0	$ 366.0	$ 166.2	$ 166.2
2020	246.0	348.5	165.0	165.0
2021	224.0	321.4	165.9	165.9
2022	200.1	290.5	159.9	159.9
2023	171.8	256.4	161.0	161.0
Thereafter	939.0	1,436.5	1,696.7	1,696.7

The Company recorded $575.6 (2017 – $566.1) as an expense for minimum lease payments for the year ended May 5, 2018 on the consolidated statements of earnings. The expense was partly offset by sub-lease income of $118.3 (2017 – $104.9), and a further $5.3 (2017 – $13.1) of expense was recognized for contingent rent.

Operating leases, as lessor

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

Rental income for the year ended May 5, 2018 was $23.6 (2017 – $26.2) and was recognized within other income on the consolidated statements of earnings. In addition, the Company recognized $0.3 of contingent rent for the year ended May 5, 2018 (2017 – $0.3).

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

	Third Parties
2019	$ 14.2
2020	13.0
2021	11.7
2022	10.8
2023	10.5
Thereafter	62.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 (2017 – $13.6). Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of 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.

24. 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 23).

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 5, 2018	May 6, 2017
0 – 30 days	$ 344.9	$ 342.7
31 – 90 days	24.3	23.3
Greater than 90 days	91.5	75.2
Total receivables before allowance for credit losses	460.7	441.2
Less: allowance for credit losses	(27.5)	(27.6)
Receivables	$ 433.2	$ 413.6

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 sheet as of May 5, 2018.

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 Company updates its estimate for credit losses based on past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchisee or affiliate locations. Current and long-term receivables, loans and other receivables are reviewed on a regular basis and are written-off when collection is considered unlikely. 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 5, 2018	May 6, 2017
Allowance, beginning of year	$ 27.6	$ 25.9
Provision for losses	4.1	5.4
Recoveries	(1.7)	(0.4)
Write-offs	(2.5)	(3.3)
Allowance, end of year	$ 27.5	$ 27.6

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 5, 2018:

	2019	2020	2021	2022	2023	Thereafter	Total
Derivative financial liabilities							
Foreign currency swaps	$ 2.5	$ 12.9	$ –	$ –	$ –	$ –	$ 15.4
Non-derivative financial liabilities							
Accounts payable and accrued liabilities	2,253.8	–	–	–	–	–	2,253.8
Long-term debt	595.6	87.0	112.6	64.4	64.1	1,260.0	2,183.7
Total	$ 2,851.9	$ 99.9	$ 112.6	$ 64.4	$ 64.1	$ 1,260.0	$ 4,452.9

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 approximate fair values 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, and investments 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 is assumed to approximate 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.

There were no transfers between classes of the fair value hierarchy during the year ended May 5, 2018.

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

Long-term debt	May 5, 2018	May 6, 2017
Total carrying amount	$ 1,666.9	$ 1,870.8
Total fair value	$ 1,707.6	$ 1,893.0

As at May 5, 2018, the fair value hierarchy includes financial assets at fair value through profit or loss of $ nil, $ nil, and $ nil for Levels 1, 2 and 3 respectively (2017 – $ nil, $1.1, and $ nil).

As at May 5, 2018, the fair value hierarchy includes financial assets at available for sale of $ nil in Level 1 (2017 – $25.1).

As at May 5, 2018, the fair value hierarchy includes financial liabilities at fair value through profit or loss of $ nil, $0.2, and $ nil for Levels 1, 2 and 3 respectively (2017 – $ nil, $0.9, and $ nil).

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 5, 2018, the fair values of the outstanding derivatives designated as cash flow hedges of forecast transactions were assets of $ nil (2017 – $1.1) and liabilities of $0.2 (2017 – $0.9).

Cash flows from cash flow hedges are expected to flow over the next two years until fiscal 2020, 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 8.4% (2017 – 23.1%) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings or loss is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the year. For the year ending May 5, 2018, the Company's average outstanding unhedged floating rate debt was $151.5 (2017 – $493.1). An increase (decrease) of 25 basis points would have impacted net earnings by $0.3 ($0.3) (2017 – $0.9 ($0.9)) 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. 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.

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) (2017 – $ nil ($ nil)) and other comprehensive income (loss) by $1.1 ($1.1) (2017 – $1.3 ($1.3)) for foreign currency derivatives in place at year end.

During the year ended May 7, 2016, Sobeys entered into seven Euro/Canadian dollar forward contracts at an approximate Canadian dollar value at inception of $68.6. The forward contracts were entered into to hedge and limit exposure to exchange rate fluctuations relating to future expenditures in Euros. The forward contracts matured on March 1, 2017.

MARKET RISK

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in the price of the investment. The Company estimates that a 10% change in the market value of its investments that trade on a recognized stock exchange would impact net earnings by $ nil (2017 – $ nil) and other comprehensive income (loss) by $ nil (2017 – $2.2).

25. Segmented information

The Company's reportable segments are Food retailing and Investments and other operations. The Food retailing segment is comprised of five operating segments: Sobeys West, Sobeys Ontario, Sobeys Quebec, Sobeys Atlantic, and Sobeys Pharmacy Group. 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.

Each of these operating segments is managed separately as each of these segments requires different technologies and other resources as well as marketing approaches. 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 5, 2018	May 6, 2017
Segmented operating income		
Food retailing	$ 273.6	$ 259.3
Investments and other operations		
Crombie REIT	39.5	41.5
Real estate partnerships	33.9	35.1
Other operations, net of corporate expenses	(0.5)	(2.9)
	72.9	73.7
Total	$ 346.5	$ 333.0

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

	May 5, 2018	May 6, 2017
Total operating income	$ 346.5	$ 333.0
Finance costs, net	110.5	118.0
Total	$ 236.0	$ 215.0

	May 5, 2018	May 6, 2017
Total assets by segment		
Food retailing	$ 8,010.4	$ 7,949.9
Investments and other operations	651.6	745.6
Total	$ 8,662.0	$ 8,695.5

26. Stock-based compensation

PERFORMANCE SHARE UNIT PLAN

The Company has awarded 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 $20.75 per PSU issued during the current year was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$21.60
Expected life	2.04 years
Risk-free interest rate	1.19%
Expected volatility	26.65%
Dividend yield	1.95%

At May 5, 2018, there were 471,693 (2017 – 861,933) PSUs outstanding. The compensation expense for the year ended May 5, 2018 related to PSUs was $4.3 (2017 – $ nil).

STOCK OPTION PLAN

During fiscal 2018, the Company granted 1,338,980 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 $3.62 per option issued during the year was determined using the Black Scholes model with the following weighted average assumptions:

Share price	$19.43
Expected life	7.99 years
Risk-free interest rate	1.33%
Expected volatility	22.44%
Dividend yield	2.17%

The compensation expense for the year ended May 5, 2018 related to the issuance of options was $2.6 (2017 – $3.3). The total increase in contributed surplus related to stock options during the year ended May 5, 2018 was $2.6 (2017 – $3.3).

The outstanding options at May 5, 2018 were granted at prices between $15.60 and $30.87 and expire between June 2018 and June 2025 with a weighted average remaining contractual life of 5.20 years. Stock option transactions during fiscal 2018 and 2017 were as follows:

	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**4,949,863**	**$ 24.27**	3,655,322	$ 25.94
Granted	**1,338,980**	**19.43**	1,642,700	20.40
Exercised	**(122,805)**	**22.26**	–	–
Expired	**(749,971)**	**25.92**	–	–
Forfeited	**(729,912)**	**23.45**	(348,159)	23.51
Balance, end of year	**4,686,155**	**$ 22.81**	4,949,863	$ 24.27
Stock options exercisable, end of year	**2,301,032**		2,110,743	

The following table summarizes information related to stock options outstanding at May 5, 2018:

	Options Outstanding			Options Exercisable	
Year Granted	Number of Outstanding Options	Weighted Average Remaining Contractual Life(1)	Weighted Average Exercise Price	Number Exercisable at May 5, 2018	Weighted Average Exercise Price
2011	14,418	0.15	$ 17.33	14,418	$ 17.33
2012	10,392	1.16	18.13	10,392	18.13
2013	14,262	2.16	17.98	14,262	17.98
2014	1,387,806	3.16	26.30	1,387,806	26.30
2015	530,337	4.17	22.44	401,000	22.44
2016	354,659	5.17	30.04	179,871	30.04
2017	1,138,136	6.18	20.28	293,283	20.29
2018	1,236,145	7.18	19.46	–	–
Total	4,686,155	5.20	$ 22.81	2,301,032	$ 25.01

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

DEFERRED STOCK UNIT PLANS

In the first quarter of fiscal 2017, the Company implemented a new employee deferred stock unit ("DSU") plan. The DSUs issued to employees vest dependent on time and the achievement of specific performance measures. At May 5, 2018, there were 803,777 (2017 – 578,444) DSUs outstanding related to this plan and the total carrying amount of the liability was $8.2 (2017 – $1.9). The compensation expense for the year ended May 5, 2018 related to DSUs was $7.4 (2017 – $1.9).

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 5, 2018, there were 198,240 (2017 – 263,199) DSUs outstanding and the total carrying amount of the liability was $4.9 (2017 – $5.7). During the year ended May 5, 2018, the compensation expense recorded was $2.1 (2017 – $1.5).

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, respectively. 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.

27. Related party transactions

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

The Company leased certain real property from Crombie REIT during the year at amounts which in management's opinion approximate fair market value that would be incurred if leased from a third party. Management has determined these amounts to be fair value based on the significant number of leases negotiated with third parties in each market it operates. The aggregate net payments under these leases, which are measured at exchange amounts, totaled approximately $199.7 (2017 – $195.8).

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

On July 4, 2017, Crombie REIT redeemed its 5.00% Series D Convertible Unsecured Subordinate Debentures. In exchange for its investment in the Series D convertible debentures, the Company received $24.3 in principal and interest payments. There was no gain or loss recognized on the redemption. During the year ended May 5, 2018, the Company received interest from Crombie REIT of $0.2 (2017 – $1.2).

On April 6, 2018, Sobeys and its wholly-owned subsidiaries entered into an agreement with Crombie REIT to sell a portfolio of 11 properties, nine of which were leased back. Total cash proceeds to the Company and its wholly-owned subsidiaries from this transaction were $88.1, resulting in a pre-tax gain of $13.2 which has been recognized on the consolidated statements of earnings.

On September 29, 2017, Sobeys sold a property to Crombie REIT for cash consideration of $6.4. This resulted in a pre-tax gain of $0.2, which has been recognized in other income on the consolidated statements of earnings.

On June 29, 2016, Sobeys and its wholly-owned subsidiaries entered into an agreement with Crombie REIT to sell and leaseback a portfolio of 19 retail properties and a 50% interest in each of its three automated distribution centres, as well as the sale of two parcels of development land which were previously owned by Empire. Crombie REIT also invested approximately $58.8 in renovations or expansions of ten Sobeys retail locations already in Crombie REIT's portfolio. In addition to cash, Crombie REIT issued to a subsidiary of the Company $93.4 in value of Crombie Limited Partnership ("CLP") Class B units with attached Crombie REIT special voting units at a price of $14.70 per unit. The subsidiary of the Company subsequently sold its CLP Class B units to Empire on a tax deferred basis. Total cash proceeds to the Company and its wholly-owned subsidiaries from these transactions with Crombie REIT and Empire were $323.8, resulting in a pre-tax loss of $0.8 which has been recognized on the consolidated statements of earnings. Proceeds from the transactions were used to repay the senior unsecured notes.

On July 29, 2016, Sobeys, through a wholly-owned subsidiary, sold and leased back an additional property from Crombie REIT for cash consideration of $26.4. This resulted in a pre-tax gain of $2.1, which has been recognized on the consolidated statements of earnings. Sobeys also purchased one property from Crombie REIT for $9.1.

During fiscal 2014, Sobeys entered into a loan agreement with Crombie REIT to partially finance Sobeys' acquisition of a property in British Columbia. The $11.9 loan bore interest at a rate of 6.0% and had no principal repayments. On May 5, 2017, Sobeys sold the property to Crombie REIT for cash consideration of $31.1, resulting in a pre-tax gain of $1.0, which has been recognized on the consolidated statements of of earnings. Proceeds from the transaction were used to repay the loan.

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 5, 2018	May 6, 2017
Salaries, bonus and other short-term employment benefits	$ 13.3	$ 9.7
Post-employment benefits	1.5	1.6
Termination benefits	0.8	8.7
Share-based payments	9.8	14.8
Total	$ 25.4	$ 34.8

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.

28. Capital management

The Company's objectives when managing capital are: (i) 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 5, 2018.

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) and shareholders' equity, net of cash and cash equivalents. The calculation is set out in the following table:

	May 5, 2018	May 6, 2017
Long-term debt due within one year	$ 527.4	$ 134.0
Long-term debt	1,139.5	1,736.8
Funded debt	1,666.9	1,870.8
Less cash and cash equivalents	(627.9)	(207.3)
Net funded debt	1,039.0	1,663.5
Shareholders' equity, net of non-controlling interest	3,702.8	3,644.2
Capital under management	$ 4,741.8	$ 5,307.7

Although the Company does not include operating leases in its definition of capital, the Company does give consideration to its obligations under operating leases when assessing its total capitalization.

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction, renovation, 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 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. No changes were made to these objectives in the current year.

Management monitors certain key ratios to effectively manage the capital structure and debt obligations of the Company:

	May 5, 2018	May 6, 2017
Funded debt to total capital(1)	31.0%	33.9%
Funded debt to EBITDA(2)	2.1 x	2.4 x
EBITDA to interest expense(2)	8.1 x	7.5 x

(1) Total capital is funded debt plus shareholders' equity, net of non-controlling interest.

(2) EBITDA and interest expense are comprised of EBITDA and interest expense for each of the 52 week periods then ended. EBITDA consists of operating income plus depreciation and amortization of intangibles, while interest expense consists of interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income or loss.

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.