

THE COMPETITION TRIBUNAL

IN THE MATTER OF the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

AND IN THE MATTER OF an application by the Commissioner of Competition pursuant to section 76 of the *Competition Act*;

AND IN THE MATTER OF certain agreements or arrangements implemented or enforced by Visa Canada Corporation and MasterCard International Incorporated.

BETWEEN:

COMPETITION TRIBUNAL TRIBUNAL DE LA CONCURRENCE	
RECEIVED / REÇU April 27, 2012	
REGISTRAR / REGISTRAIRE	
OTTAWA, ONT.	Document #230 by / par Jos LaRose

THE COMMISSIONER OF COMPETITION

Applicant

- and -

**VISA CANADA CORPORATION and
MASTERCARD INTERNATIONAL INCORPORATED**

Respondents

- and -

**CANADIAN BANKERS ASSOCIATIONS and
THE TORONTO-DOMINION BANK**

Intervenors

WITNESS STATEMENT OF PAUL JEWER

1. I am the Chief Financial Officer of Sobeys Inc. ("Sobeys"), a position I have held since October 2011. I am responsible for Sobeys' finance, controllership, treasury, tax management, investor relations, financial planning and internal audit functions. I also oversee Sobeys' relationships with suppliers relating to the acceptance of credit cards and other payment methods.

2. Prior to my appointment to Chief Financial Officer, I was Vice President, Finance & Treasurer and then Senior Vice President, Finance & Treasurer of Sobeys for eight years in total. In those positions, I was responsible for, among other things, Sobeys' relationships with suppliers relating to the acceptance of credit cards and other payment methods.

3. Before joining Sobeys, I was employed at Ernst & Young LLP, where I provided audit, tax, valuation and business advisory services for a variety of clients beginning in 1994, ultimately becoming manager of assurance and business advisory services. I earned my Chartered Accountant designation in 1997.

4. In 1998, I became the controller at Halifax-based FastLane Technologies Inc. ("Fastlane"), which developed software to help companies migrate from a Windows/NT network to a Windows 2000 platform. Fastlane was sold in 2000 and I accepted a position as Vice President of Finance and Corporate Development with Core Networks Inc., a company which developed software used by cable companies to deploy and activate cable modems, where I stayed until joining Sobeys in 2003.

Sobeys

5. Founded in 1907, Sobeys is engaged in the retail and wholesale supply of grocery products. Sobeys has more than 1,300 corporate-owned and franchised stores in 837 communities across all 10 provinces of Canada. Sobeys and its franchise affiliates employ approximately 97,000 employees.

6. Sobeys carries on its retail grocery business under a number of different banners, including Sobeys, Sobeys Urban Fresh, Bonichoix, Foodland, FreshCo, IGA, IGA extra, Les Marchés Tradition, Marché Bonichoix, Needs, Price Chopper and Thrifty Foods. These banners fall into five core retail formats: full service, fresh service, community service, price service and convenience service.

7. Sobeys also operates a variety of other businesses in various regions in Canada. For example, Sobeys provides wholesale distribution of a full range of grocery and household products to affiliated retail stores and independent wholesale accounts. Its wholesale business is operated as Lumsden Brothers, a division of Sobeys Capital Incorporated, in Ontario and TRA Atlantic, a division of Sobeys Group Inc., in Atlantic Canada. It also operates "Cash & Carry" wholesale outlets in Western Canada and Atlantic Canada, as well as Lawton's Drug Stores Limited in Atlantic Canada.

8. Sobeys is a wholly-owned subsidiary of Empire Company Limited, a public company based in Stellarton, Nova Scotia, controlled by the Sobey family. Sobeys' sales in fiscal 2011 amounted to approximately \$16 billion.

9. Further information regarding Sobeys is available in the 2011 Annual Report of the Empire Company Limited, a copy of which is attached as Exhibit "A" to this witness statement.

10. As described below, Sobeys is a member of the Grocery Division of the Retail Council of Canada (the "RCC").

The Retail Council of Canada

11. The RCC is a not-for-profit, industry-funded association with offices in Vancouver, Winnipeg, Toronto, Ottawa, Montreal and Halifax. Its members represent more than

43,000 stores of all retail formats across Canada, including department, specialty, discount, independent stores and online merchants.

12. In February 2011, coinciding with the dissolution of the Canadian Council of Grocery Distributors ("CCGD"), the RCC launched a new Grocery Division with a strategic focus on grocery retailing. Sobeys, Loblaw Companies Limited ("Loblaw"), Metro Inc. ("Metro"), Walmart Canada ("Walmart") and Canada Safeway Limited ("Safeway") are members of the RCC Grocery Division.

13. The purpose of the RCC Grocery Division is to identify and address strategic issues affecting the grocery sector, domestically and globally, in respect of the following: food safety; sustainability; industry supply-chain efficiencies; health and wellness; and emerging issues.

14. Since the Fall of 2008, the RCC and its *"Stop Sticking it To Us"* Coalition (the "Coalition") partners have been engaged in various activities relating to the increasing cost of credit card processing fees ("Card Acceptance Fees"). The Coalition is a group of 29 Canadian member organizations, led by the RCC and backed by over 200,000 businesses in a broad range of industries from coast-to-coast, that is attempting to address the increasing Card Acceptance Fees of Visa and MasterCard. Prior to its dissolution, CCGD was an active participant in the Coalition.

15. I am making this witness statement in my capacity as an executive of a member of the RCC Grocery Division. Although this witness statement provides operational information relating to Sobeys, I understand that this information is generally applicable to other members of the RCC Grocery Division.

Canadian Retail Grocery Industry

16. The Canadian retail grocery sector is intensely competitive, and includes national grocery chains like Sobeys and Loblaw, regional grocery chains like Metro, Safeway and Overwaitea, and more localized grocery chains like Longos, Calgary Co-op and Farm Boy. In addition to traditional grocers, there is also significant competition in the sale of grocery items from mass merchandisers like Walmart and Canadian Tire, drug store chains like Shoppers Drug Mart and warehouse/club stores like Costco, among others, who also participate in the grocery sector.

17. The number of stock-keeping units ("SKUs") carried by grocers depends on the store format. The average Sobeys store carries 15,000 to 20,000 SKUs, but this varies from 35,000 SKUs in Sobeys full service format stores to 3,500 SKUs in Sobeys convenience format stores.

18. As a result of the intense competition in the grocery sector and sensitivity to the unique role that food and household goods play in the lives of Canadians, grocers operate with very low margins, generally around 1% to 2%.

19. Given such low margins and intense competition, grocers must have efficient, cost effective operations. As a consequence, it is of vital importance to grocers that they are able to control their input costs and reasonably predict costs. However, as will be discussed in detail below, grocers have not been able to constrain the increasing costs associated with the acceptance of credit card payments.

Payment Methods

20. Another distinguishing characteristic of the grocery sector is the way in which customers shop and choose to pay for their purchases. Consumers visit a grocery store an average of two times a week. The average grocery bill is between [REDACTED] and [REDACTED] depending

on store location and format and the majority of transactions at grocery stores are cash or Interac debit, accounting for some [REDACTED] of all transactions.

21. Sobeys first began accepting credit cards, including Visa, MasterCard and American Express, in 1995. However, there are some discount banners operated by Sobeys that still do not accept credit cards.

22. The average size of a purchase made at Sobeys during 2011 was [REDACTED] using cash, [REDACTED] using Interac debit and [REDACTED] using a credit card (Visa [REDACTED] MasterCard [REDACTED] and American Express [REDACTED]).

23. Over the last several years, grocers have continued to see a migration away from cash to other forms of payment. At Sobeys, electronic purchases (credit and debit) now account for approximately [REDACTED] of sales by dollar volume and [REDACTED] of the number of transactions. The number of cash transactions at Sobeys has decreased by [REDACTED] between 2007 and 2011, with the majority of these sales migrating to credit card transactions.

24. In Sobeys' 2011 year, [REDACTED] of sales were made using Interac debit, [REDACTED] were made using cash and [REDACTED] were made using a credit card [REDACTED] were made using Visa, [REDACTED] were made using MasterCard and [REDACTED] were made using American Express).

25. The cost of accepting credit cards is a significant expense for Sobeys and is significantly higher than the costs of other forms of payment used by its customers, such as Interac debit and cash. Specifically, Sobeys paid approximately [REDACTED] in Card Acceptance Fees in 2011, at a weighted average rate of [REDACTED] per transaction. In comparison, cash costs Sobeys approximately [REDACTED] per dollar to process and Interac debit cost Sobeys between [REDACTED] and [REDACTED] per transaction to process.

26. Despite the high costs associated with credit cards, as a practical matter, Sobeys and other grocers cannot discontinue acceptance of Visa or MasterCard credit cards, even if

Card Acceptance Fees exceed their profit margins. Customers have come to expect that their credit cards will be accepted in grocery stores. As the grocery sector is intensively competitive, declining to accept credit cards would result in lost sales to rivals who continue to accept credit cards.

27. In addition, it is difficult to refuse a legitimate payment method chosen by customers, particularly since customers are generally unaware that Card Acceptance Fees impose significant costs on merchants and, in turn, increase prices to all consumers.

Relationship with the Networks and Acquirers

28. Sobeys and each of the members of the RCC Grocery Division contracts with a financial institution known as an "Acquirer" to provide credit card network services. These services enable grocers to accept credit cards as a form of payment from customers, including access to the Visa and MasterCard credit card networks, authorization for credit card transactions and payment.

29. Numerous Acquirers compete to provide credit card network services to grocers. Sobeys is generally able to secure competitive pricing from Acquirers with respect to the portion of the Card Acceptance Fee that is retained by Acquirers, commonly referred to as the "Acquirer Service Fee". However, as outlined below, the Acquirer Service Fee accounts for only a very small proportion of the overall Card Acceptance Fee paid by Sobeys for credit card acceptance.

30. In addition to the Acquirer Service Fee, Card Acceptance Fees are made up of fees retained by retained by the financial institution that issues the credit card (the "Issuer"), commonly referred to as the "Interchange Fee", and fees that are retained by the credit card networks ("Network Fees"). Interchange Fees and Network Fees are set by the credit card networks and directly influence the level of Card Acceptance Fees.

31. The vast majority of Card Acceptance Fees are the Interchange Fees. Interchange Fees alone account for approximately [REDACTED] of total Card Acceptance Fees, and range from [REDACTED] to [REDACTED] for Visa and [REDACTED] to [REDACTED] for MasterCard depending upon the grocer and the type of credit card used by a customer.

32. Sobeys has a contractual relationship with Chase Paymentech ("Chase") to act as Acquirer for the credit card transactions made at Sobeys in all provinces other than Quebec. Caisses Desjardins du Québec ("Desjardins") is Sobeys' Acquirer in Quebec.

33. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

34. For Sobeys, the Acquirer Service Fee paid to both Chase and Desjardins is approximately [REDACTED] and represents only [REDACTED] of its total Card Acceptance Fee. The remaining [REDACTED] of the Card Acceptance Fee paid by Sobeys is the Interchange Fee retained by Issuers and Network Fees retained by the credit card network (such as Visa and MasterCard).

35. Sobeys is currently paying an effective Interchange Fee of [REDACTED] per credit card transaction to accept Visa credit cards and an effective Interchange Fee of [REDACTED] to accept MasterCard credit cards.

Increasing Cost of Credit Card Acceptance

36. Sobeys typically has significant negotiating power with its suppliers. However, despite its scale, Sobeys has not had any success in preventing significant increases in its Card Acceptance Fees. I understand that the same is true of other similarly situated grocers.

37. Card Acceptance Fees have increased significantly in recent years due to a number of factors, including the introduction and increasing penetration of "premium" credit cards that have higher Interchange Fees than standard credit cards. Premium credit cards have been and continue to be heavily marketed to consumers in Canada.

38. Further, Card Acceptance Fees are difficult to forecast or mitigate given the ability of the credit card networks to unilaterally increase such fees or introduce new types of credit cards, such as premium credit cards and now super premium credit cards, which carry significantly higher Card Acceptance Fees than standard credit cards. The cardholder rewards offered by these premium credit cards have resulted in an increasing penetration of higher-cost credit cards and have tended to move customers away from using less expensive payment methods, such as Interac debit and cash.

39. Currently, [REDACTED] of all Visa credit card transactions and [REDACTED] of all MasterCard credit card transactions at Sobeys are made using premium credit cards.

40. Many consumers are not aware that premium credit cards cost merchants more to accept and some cardholders are not aware that they are carrying high cost credit cards. The lack of transparency has made it very difficult to educate consumers on the issue. Some consumers (i.e., those using higher-cost premium credit cards) cause grocers to incur a significantly higher cost than other consumers, but those consumers are not directly bearing the costs of their choice of payment.

41. I am not aware of any evidence demonstrating that premium credit cards have significantly changed the purchasing behaviour of consumers or that the use of premium cards has led to any increase in sales in the grocery sector. In fact, I understand, in the case of MasterCard, some cardholders are not even aware that their credit cards have been identified as premium cards.

42. Many grocers, including Sobeys, may not have begun accepting credit cards in the first place if they had known how significantly their acceptance costs would increase over time. For example, Sobeys credit card expenses increased by approximately [REDACTED] since 2007 as a result of increased credit card acceptance fees and greater credit card usage – from [REDACTED] of sales in 2007 to [REDACTED] of sales in 2011. This increase was largely attributable to the increased use of premium credit cards. Conversely debit card expenses as a percentage of sales decreased between 2007 and 2011.

43. Grocers cannot, however, as a practical matter, stop accepting credit cards now, as customers have become accustomed to paying for their groceries with credit cards.

44. Increases in Card Acceptance Fees are particularly significant for the grocery business. As described above, profit margins in the grocery sector are very low. As a consequence, higher costs, such as increased Card Acceptance Fees, are inevitably passed on to consumers in the form of higher retail prices.

45. In an effort to mitigate the cost of credit card acceptance, Sobeys partnered with Citibank in 2008 to offer a co-branded MasterCard credit card. Sobeys terminated its relationship with Citibank and switched to a partnership with the Bank of Montreal ("BMO") in June 2010.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

The Merchant Rules

47. The agreements between Sobeys and its Acquirers require that Sobeys abide by certain rules implemented by Visa and MasterCard (the "Merchant Rules"), including the following:

- (a) the "No Surcharge Rule", which prevents Sobeys from applying an additional charge for customers that elect to use Visa or MasterCard credit cards, even though (as explained above) such credit cards impose higher costs on Sobeys;
- (b) the "Honour All Cards Rule", which provides that if Sobeys accepts one type of Visa or MasterCard credit card, it must accept all types of Visa or MasterCard credit cards, respectively, including credit cards that have higher Card Acceptance Fees; and
- (c) the "No Discrimination Rule", which prevents Sobeys from engaging in other practices that discourage the use of credit cards in favour of other forms of payment.

48. The Merchant Rules prevent grocers from effectively differentiating between Visa and MasterCard credit cards, and require grocers to treat all Visa and MasterCard credit cards alike, even those with higher Card Acceptance Fees.

49. As a result of the Merchant Rules, grocers are unable to effectively encourage customers to use lower-cost methods of payment, such as cash, Interac debit and lower-cost credit cards, including by surcharging credit cards with higher Card Acceptance Fees, declining to accept credit cards with higher Card Acceptance Fees or steering consumers to lower-cost payment methods.

50. Importantly, as the Merchant Rules prevent grocers from surcharging or refusing to accept certain types of credit cards whose costs exceed the basic cost of credit card

acceptance, they reduce or eliminate a significant source of leverage that grocers would otherwise have when negotiating with Visa and MasterCard.

51. Having the option to surcharge credit card transactions or refuse certain types of credit cards would provide Sobeys and other merchants with leverage in negotiations with Visa and MasterCard that would allow them to secure lower Card Acceptance Fees. There is currently a significant imbalance in the bargaining power between merchants and the credit card networks.

52. I believe that Visa and MasterCard will have a significant incentive to reduce or, at least, not increase Card Acceptance Fees to avoid surcharging by merchants or having their credit cards declined by merchants. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

53. The Merchant Rules also prevent grocers from sending the correct pricing signals to customers that elect to use higher-cost credit cards to make a purchase. Customers are generally unaware that credit cards impose a higher cost on merchants than other forms of payment.

54. Although the voluntary *Code of Conduct for the Debit and Credit Card Industry* permits merchants to discount for lower-cost payment methods, there are practical and technological limitations to doing so.

55. First, merchants would be discounting from a "shelf price", whether on a fixed or percentage basis. Grocers would have to set this shelf price based on an estimate of the mix of payment methods that would be used, which could vary significantly with location and in response to issuer marketing campaigns, prevailing card reward levels and other factors. The

variation in types of credit cards and card fees means that it would be difficult to establish a standard discount, exacerbated by the fact that a payment card may carry different fees depending on its use, for example, "card present" versus "card not present" transactions.

56. Second, given the intensely competitive nature of the grocery sector, grocers must be able to advertise the lowest possible prices, not a price that will be further discounted depending on the payment method selected by the customer.

57. Third, the discount would have to be offered to all customers, including those that otherwise would have paid with cash, Interac debit or lower-cost credit cards. In this regard, cash and Interac debit accounted for almost [REDACTED] of Sobeys' transactions in 2011.

58. Fourth, given the large number of SKUs involved, it would be very costly for grocers to inform their customers of the discounted prices. Shelf-talkers, for example, are a significant investment with little return.

59. Finally, discounting is not as effective as surcharging in affecting consumer behaviour. For example, prior to October 2009, Sobeys had a program in place for two years in an effort to deter the use of plastic bags. As part of this program, customers were given a discount of 5 cents for each plastic bag that they brought to the store and used for groceries. This discounting policy had little effect on the consumption of plastic bags.

60. In contrast, the introduction of a 5 cent surcharge on plastic bags in Toronto in October 2009 reduced plastic bag consumption at Sobeys by more than 60%.

Electronic and Visual Identification of Credit Cards

61. To take advantage of the remedies sought by the Commissioner of Competition, grocers must be able to determine at the time of a transaction whether a particular credit card attracts a higher Card Acceptance Fee. In particular, grocers must be able to identify the Card Acceptance Fee associated with each brand and type of credit card at the point of interaction.

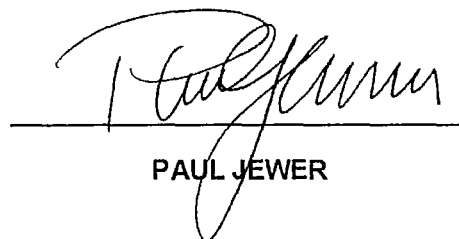
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62. I believe that the information required to allow grocers to determine the applicable Card Acceptance Fee for Visa and MasterCard transactions already exists and is available to Acquirers, Visa and MasterCard, but is not readily made available to merchants.

63. For example, Sobeys has worked with its point-of-sale ("POS") provider, NCR Corporation, to develop an in-house POS technology that, with the help of its Acquirers, allows it to identify premium credit cards. It is practically impossible to educate cashiers to identify different credit cards without the use of such technology.

64. To enable Sobeys to effectively communicate to its customers any changes to its credit card acceptance policy, including by visually identifying precisely which cards are or are not accepted or are subject to a surcharge prior to the customer entering into a transaction, industry standard visual identifiers for premium and standard credit cards are required. Industry standard visual identifiers would also provide much needed clarity and transparency to cardholders.

Signed: March 7, 2012



PAUL JEWER

EMPIRE
COMPANY LIMITED

A photograph of three smiling employees standing in front of a brick building with large windows. On the left is a woman in a dark blue vest over a light blue shirt with a colorful patterned scarf. In the center is a woman in a white shirt and green apron with the 'Sobeys' logo. On the right is a man in a light blue shirt, a purple tie, and a white hard hat, holding a rolled-up document. The text 'BEING THE BEST TOGETHER' is overlaid in large white letters.

BEING THE BEST TOGETHER

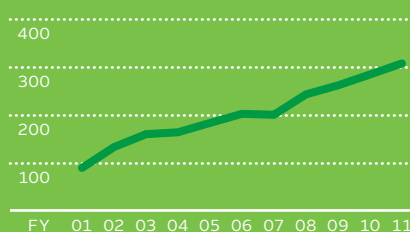
2011 SUMMARY ANNUAL REPORT

Empire Company Limited is committed to creating sustainable value through cash flow and income growth, and equity appreciation. Since becoming a public company in 1982, we have done that by focusing on businesses that we know and understand. These businesses – food retailing, real estate and corporate investments – will continue to be our foundation and focus.

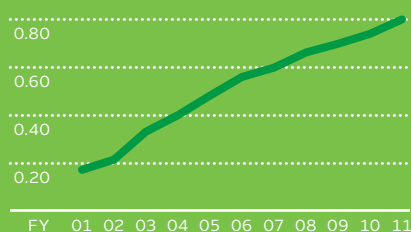
2011 Financial Highlights

(\$ in millions, except per share amounts)	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	52 Weeks Ended May 2, 2009
Operations			
Sales	\$ 16,029.2	\$ 15,516.2	\$ 15,015.1
Operating earnings ⁽¹⁾	307.8	284.5	261.7
Capital gains and other items, net of tax	61.7	17.4	3.0
Net earnings	369.5	301.9	264.7
Per Share Information (fully diluted)			
Operating earnings	\$ 4.51	\$ 4.15	\$ 3.97
Capital gains and other items, net of tax	0.91	0.25	0.05
Net earnings	5.42	4.40	4.02
Book value	47.76	43.07	39.07
Dividends	0.80	0.74	0.70

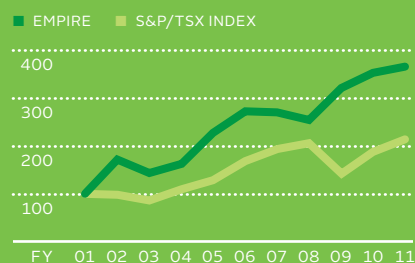
Operating Earnings⁽¹⁾
(\$ in millions)



Dividends
(\$ per share)



**Value of Investment of \$100
Made 10 Years Ago**
(\$)



13.3%

10-Year Operating Earnings CAGR⁽²⁾

16.8%

10-Year DPS CAGR⁽²⁾

13.9%

10-Year Total Return CAGR⁽²⁾

(1) Operating earnings is calculated as net earnings before capital gains (losses) and other items, net of tax.

(2) Compound Annual Growth Rate.

Forward-Looking Statements

This discussion contains forward-looking statements which reflect management's expectations, objectives, plans, goals, strategies, expected growth, business prospects and opportunities. These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available. Actual results may differ materially from such statements. Readers are cautioned not to place undue reliance on such forward-looking information. These forward looking statements include, but are not limited to, those related to: the SAP systems initiative which may be impacted by the performance of our supplier and effective implementation; growth at Genstar which may be impacted by local market and economic conditions and the rollout and acceptance of new *Compliments* product lines which may be impacted by competitive conditions and consumer taste. For additional discussion relating to forward-looking statements including uncertainties and risks, refer to the Company's annual Management Discussion and Analysis.

This document contains non-GAAP financial measures. For more information on the non-GAAP financial measures please refer to the 2011 annual MD&A.

BEING THE BEST TOGETHER

Since the privatization of Sobeys Inc. four years ago, Empire has focused on food retailing and related real estate as never before. Today, these businesses generate more than 98 percent of our sales and 95 percent of operating earnings. This report shows how Empire's food retailing and real estate divisions are working together to support Sobeys' goal of being widely recognized as the best food retailer in Canada.

BUILDING VALUE TOGETHER



Paul D. Sobey
President and CEO,
Empire Company Limited

Bill M'Ewan
President and CEO,
Sobeys Inc.

Empire's food retailing and related real estate businesses continued to deliver steady earnings and cash flow growth amid an intensely competitive food retail environment in fiscal 2011. The decision to focus our energy and capital resources on these stable and growing businesses has continued to benefit Empire's customers, suppliers, employees and investors.

The theme of this year's annual report – *being the best together* – is one that aptly reflects the important synergy that exists between Empire's food retailing and related real estate businesses. Sobeys' goal is to be widely recognized as the best food retailer in Canada and during the past few years, our food retailing and real estate employees have been working together to realize this vision as never before.

Steady Performance

Our shared focus on the businesses we know best continued to serve us well in fiscal 2011. Sales for the year totalled \$16.0 billion compared to \$15.5 billion in 2010. Operating earnings were \$307.8 million or \$4.51 per share compared to \$284.5 million or \$4.15 per share a year ago. Fiscal 2011 operating earnings benefited from continued growth in the fundamentals of our food retailing business which also benefited from an additional week of operations and from a lower effective income tax rate. At the same time we continued to strengthen the balance sheet as the ratio of funded debt to capital improved to 26.4 percent from 29.3 percent a year ago.

Food Retailing

At Sobeys, sales increased 3.4 percent to \$15.8 billion from \$15.2 billion a year ago despite an environment of persistent food price deflation. Lower retail prices that benefited consumers throughout fiscal 2011 were largely the result of very extensive price discounting in the industry, particularly in the Ontario marketplace.

In the midst of this deflationary price environment, Sobeys continued to deliver industry-leading same-store sales growth. This achievement has been driven by improved execution and enhancements to our food focused offering, the ongoing modernization of our store network, the continued development of our customer insight capabilities and the strengthening of our world-class private label program. Equally important are the cost and productivity initiatives that have supported continued

earnings growth in an intensely competitive environment while setting the stage for long-term sustainable growth. During the past fiscal year, we continued to invest in the company-wide implementation of SAP, a multi-year systems initiative that is bringing every aspect of our business onto a single enterprise-wide platform. Scheduled for completion in 2013, it will allow us to further reduce complexity, capture increased economies of scale and take full advantage of our

related sales and productivity tools and initiatives. It will also facilitate a second automated distribution centre slated to open in early 2013 near Montréal. Like our Vaughan, Ontario facility, it will add to our industry-leading logistics network capabilities.

While much attention has been paid to the successful launch of the FreshCo banner in Ontario, we also continued to invest in the expansion and modernization of our store network across the country. Among these investments are new prototype Sobeys, IGA *extra* and Thrifty Foods stores that promise to build upon the quality of our current full-service offerings, while incorporating

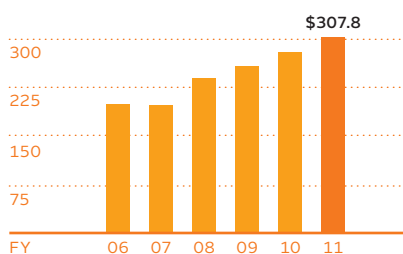
innovative design and construction processes, and higher-efficiency equipment and fixtures. After several years of continued focus and sustained investment, our entire store network – including Sobeys, Sobeys Urban Fresh, IGA, IGA *extra*, Thrifty Foods, Foodland, Needs and Lawtons Drugs – is performing well. A significant majority of our store network is now at a standard that we consider current, and we continue to move the yardsticks. You can learn more about our investment in Sobeys' growth and productivity on pages 8 to 15 of this report.

Real Estate

The past year was also one of steady progress for Empire's real estate division, which principally consists of our investments in Crombie REIT and Genstar.

Our 46.4 percent stake in Crombie REIT represents an excellent investment in one of the steadiest performing and defensive portfolios in commercial real estate. One of Crombie

Consolidated Operating Earnings
(\$ in millions)



Empire's operating earnings have grown by more than \$100 million over the past five years.



“Our commercial real estate strategy is intended to accelerate the expansion of Sobeys’ retail grocery network which supports long-term income growth and capital appreciation for Empire.”

– Frank C. Sobeys

Property owned and operated by Crombie REIT.

REIT’s strengths is its unique and mutually beneficial relationship with Sobeys. During fiscal 2011, Crombie REIT purchased 12 new free-standing and food-anchored properties for \$104.0 million from Sobeys and subsidiaries of Empire. Sobeys and Crombie REIT work closely together throughout the development stage of all properties to ensure they meet the long-term interests of both organizations. For Sobeys, this ensures well-managed and well-maintained premises and the potential flexibility to expand or renovate when required. For Crombie REIT, the relationship ensures preferred access to new, high-quality properties that serve the everyday needs of local communities. At the end of fiscal 2011, Crombie REIT had first option on an additional 22 Sobeys properties representing \$400 to \$500 million of future acquisitions in the pipeline.

Financially, Crombie REIT posted another solid performance in its fiscal year ending December 31, 2010, with property revenues and net operating income reaching record levels amid an improving but still uncertain economy. Crombie REIT’s cash flow and operating income contribution to Empire reached \$26.7 million and \$18.7 million in our fiscal year 2011, up from \$24.9 million and \$18.6 million a year earlier.

Today, more than 78 percent of the rentable space in Crombie REIT’s portfolio is comprised of grocery or drugstore-anchored shopping plazas or free-standing grocery stores. The tenant quality is considered high with more than 36 percent of total annual minimum rents generated from a Sobeys banner.

We also continue to be pleased with our ownership interests in Genstar, which acquires property for development into master-planned residential communities. Genstar’s operating income contribution to Empire increased 4.2 percent to \$32.3 million in fiscal 2011. Genstar has a terrific, entrepreneurial management team with solid market knowledge and experience in creating long-term value. During the past year, Genstar management took advantage of attractive opportunities to bank land for future development, positioning the company well for future growth.

Investments and Other Operations

Investments and other operations’ sales, primarily generated by Empire Theatres, equalled \$189.0 million in fiscal 2011. During the fiscal year, Empire Theatres opened one new theatre and renovated two others. Empire Theatres continues to focus on its guests by improving guest service and offering the latest technology such as curved screens, stadium seating, digital and 3D projection, and mobile ticketing.

Capital Gains and Other Items

We recorded net capital gains and other items of \$61.7 million in fiscal 2011 compared to \$17.4 million last year. Fiscal 2011 marked the sale of our investment in Wajax Income Fund for net proceeds of \$121.3 million and a net capital gain of \$75.8 million; this was partially offset by store closure costs associated with the FreshCo roll-out and the rationalization of our distribution network in Ontario, totalling \$15.7 million.

“Sobeys continued to grow sales through improvements to our food-focused offering, the expansion and modernization of our store and distribution networks and improved cost management and productivity initiatives.”

– Bill M^cEwan

Frank C. Sobey
President,
ECL Properties Limited

Bill M^cEwan
President and CEO,
Sobeys Inc.



The Year Ahead

Going forward, we will continue to focus on long-term value creation in the businesses we know and understand. In food retailing, though pleased with our progress, we know there remains abundant opportunity to expand our national presence, while continuing to enhance our offering and achieve higher levels of productivity in our operations.

While there are early indications of inflation occurring across markets as retail prices reflect manufacturers' cost increases, Sobeys expects competition to continue to be strong. Accordingly, the team has accelerated their focus on the implementation of further cost and productivity initiatives. We remain passionate about the food retail business and Sobeys' objective to be widely recognized as the best food retailer in the country.

The outlook for our real estate division is similarly positive. Through our investment in Crombie REIT, we have the opportunity to enjoy the proven benefits of owning defensive, high-quality real estate which fosters steady cash flow growth and capital appreciation.

In addition to allocating capital to grow the value of our businesses, one of Empire's most important functions is to ensure that we recruit and develop strong management. Over the past year, two members of our senior management teams received special industry recognition. Pierre Sévigny, who recently retired as Senior Vice-President, Retail Operations and Development, Sobeys Québec, was named a 2010 recipient of the Golden Pencil Award – the Canadian grocery industry's highest honour. Stuart Fraser, President & CEO,

Empire Theatres Limited, received the Pioneer Movie Industry Award from the Motion Picture Theatre Association of Canada. Over the past 27 years Stuart has built the Empire Theatres network from just a few locations in Atlantic Canada to 51 locations and 386 screens across the country.

In closing, on behalf of our shareholders, management and the Board, I would like to acknowledge the contribution of Christine Cross who will not be standing for re-election to the Board. Christine's counsel and advice to our Board and to management have been invaluable and we thank her for her distinguished service.

Finally, I would like to take this opportunity on behalf of our shareholders and the Board to extend our sincere appreciation to all of our employees, franchisees and affiliates of the Empire group of companies. Their infectious enthusiasm has been instrumental in creating a winning environment and truly represents our greatest competitive strength. With their continued support and dedication to serving our customers I am confident that Empire will continue to prosper in the years ahead.

Paul D. Sobey
President and CEO
Empire Company Limited
June 30, 2011

INTEGRATED GROWTH

FOOD RETAILING

Sobeys owns or franchises more than 1,300 stores located in every province of Canada under retail banners that include Sobeys, IGA, IGA *extra*, Thrifty Foods, Foodland and FreshCo, as well as Lawtons Drugs. Our five core retail formats are designed to ensure that we have the right offering in the right-sized stores for each individual market we serve – from our full-service format to the convenience format, each tailored to satisfy the unique occasion-based needs of our customers.

Competitive Strengths

- Our passionate “best in food” focus supported by our fresh food expertise.
- Our customer focus and superior service delivery.
- Our committed and knowledgeable national, regional and local management teams, franchisees, affiliates and store operators.
- Our investment in innovation including our *Compliments* private label brand.
- Our enhanced supply chain, back-shop processes and systems and tools that support our employees' ability to serve the needs of our customers.
- Our industry-leading customer insight capabilities that are helping us build stronger, one-to-one relationships with our customers.

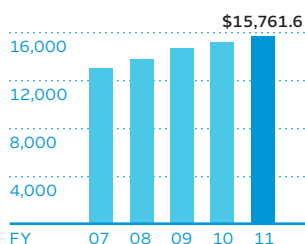
Strategic Priorities

We are determined to be widely recognized as the best food retailer in Canada. In fiscal 2011, we remained focused on three key imperatives:

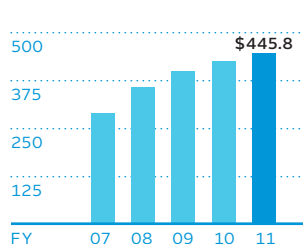
- Continued innovation and differentiation in our product and service offering through our customer insight capabilities.
- Reducing our cost base and improving sales through the systematic implementation of store and sales productivity initiatives.
- Continued improvement in operational execution through the engagement and development of our employees with tools and processes to get the job done well.

Key Performance Indicators

Food Retailing Sales
(\$ in millions)



Food Retailing Operating Income
(\$ in millions)



Focused on Food

We strive to deliver the best food shopping experience in Canada.



“Sobeys is taking an increasingly active role in retail grocery shopping plaza development to expand our presence across the country while also helping to drive the growth of Crombie REIT.”

Sylvie Lachance, Executive Vice President, Real Estate Development, Sobeys Inc.

REAL ESTATE

Empire's real estate investments consist of a 46.4 percent ownership interest in Crombie REIT and an approximate 40 percent ownership interest in Genstar. Crombie REIT owns, manages and operates a diverse portfolio of commercial real estate with 78 percent of the rentable space comprised of either grocery or drugstore-anchored shopping plazas or free-standing grocery stores. Genstar remains focused on residential land development principally in select communities in Ontario, Western Canada and the United States.

Competitive Strengths

- Experienced and knowledgeable management.
- Close working relationship between Sobeys and Crombie REIT optimizes the development of food-anchored shopping plazas.
- Crombie REIT's ownership of a high-quality property portfolio that serves the everyday needs of Canadian consumers.
- Genstar has attractive land holdings in growth markets.

Strategic Priorities

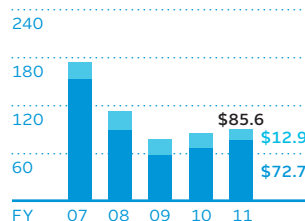
- Enhancement of asset value.
- Expansion of the asset base through accretive acquisitions.
- Sobeys and Crombie REIT management continue to work closely together to facilitate ongoing growth in food-anchored shopping plazas.
- Ongoing development of a property pipeline for the benefit of both Sobeys and Crombie REIT.
- Reinvestment of cash distributions from Crombie REIT and Genstar to support future growth.

Key Performance Indicators

Real Estate Revenue⁽¹⁾

(\$ in millions)

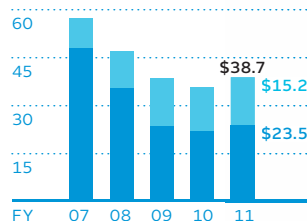
■ RESIDENTIAL ■ COMMERCIAL



Real Estate Funds from Operations⁽¹⁾

(\$ in millions)

■ RESIDENTIAL ■ COMMERCIAL



(1) Fiscal 2007 and fiscal 2008 have been restated to exclude Sobeys Leased Properties which was sold on April 22, 2008.

Driving Growth

Our real estate strategy is designed to accelerate Sobeys' expansion.



GROWTH

We continued to grow sales through improvements to our food-focused offering, the expansion and modernization of our store and distribution networks and improved cost management and productivity.

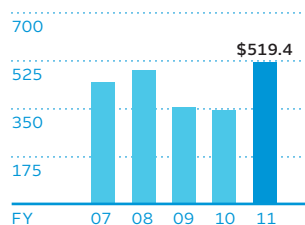
Sobeys' food-focused strategy is designed to deliver the best food shopping experience in Canada through ongoing improvement in our product, service and merchandising offerings. We deploy five distinct food retail formats to satisfy our customers' requirements – full-service, fresh service, community service, price service and convenience service – which operate under a number of banners.

Capital investment in Sobeys' property and equipment totalled \$519.4 million in fiscal 2011. A total of 44 corporate and franchise stores were opened, acquired or relocated, 12 stores were expanded and 68 stores were re-bannered as we continued to strengthen Sobeys'

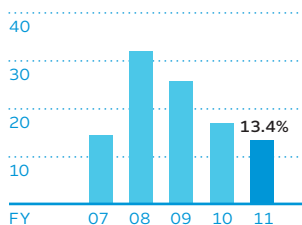
presence across the country and improve the quality of our retail space. Over the past five years, we have invested more than \$2.1 billion in our store network and supporting infrastructure and today a significant majority of our stores are at a standard that we consider current, and we are not finished yet.

During fiscal 2011, we opened next-generation Sobeys, IGA *extra* and Thrifty Foods stores, which are taking the quality of our full-service offerings to a higher level. They feature major advancements in all fresh departments, a significantly expanded health and wellness offering, more detailed nutritional information and improved in-store food preparation.

**Food Retailing
Investment in
Property & Equipment**
(\$ in millions)



**Food Retailing
Ratio of Net Debt
to Net Total Capital**
(%)



Sobeys has invested more than \$2.1 billion in the past five years to improve its business processes and systems and to modernize its distribution network and retail store presence in Canada.

Always Fresh

Chantal Roy exemplifies our commitment to fresh service excellence in the expanded deli department of the new IGA extra in Valleyfield, Québec.

Sobeys' new stores raise the bar on full-service food retailing with major advances in fresh department merchandising, in-store food preparation and nutritional information.



Sobeys

Sobeys' 286-store network in Atlantic Canada, Ontario and Western Canada includes its newest full-service prototype in Bedford, Nova Scotia.



IGA
extra

IGA extra's reputation for leadership in fresh service has been enhanced by the opening of the banner's next-generation store in Valleyfield, Québec.



THRIFTY
FOODS

Next-generation Thrifty Foods stores incorporate design and construction improvements that will reduce their operating costs and environmental impact.



FreshCo's winning approach to discount grocery retailing includes an expansive ethnic food offering that is popular with shoppers in Ontario's growing multicultural communities.

These full-service stores also incorporate innovative design and construction processes along with higher-efficiency equipment and fixtures to help deliver greater service at the lowest possible cost. As the prototypes evolve, we will continue to migrate our most successful innovations throughout the rest of our network to create an even more differentiated shopping experience for our customers.

The modernization of our store network includes our investment in the FreshCo discount banner in Ontario, which has revitalized our presence in Ontario's fast growing discount segment by delivering on its customer promise of a "*Fresher. Cheaper.*" shopping experience. At FreshCo, the emphasis is on having the lowest prices and a fast-turning assortment of the freshest produce available with an impressive selection of high-quality, case-ready meats and cheeses and an abundance of locally grown fruits and vegetables. It's an approach that relies on operating efficiencies more than the sourcing of low-cost product and one that has struck a chord

with value-conscious shoppers who want everyday low prices without the compromises associated with ordinary discount stores. FreshCo stores feature extensive ethnic food sections aimed to satisfy rapidly growing demand in our multicultural communities. We simply say that FreshCo is "discount done right". During the fiscal year, we opened a total of 57 stores under the FreshCo banner with more stores to come in fiscal 2012. The response from consumers has been very positive.

We have also been pleased with the performance of Sobeys' other retail banners. After years of careful repositioning and sustained investment, Lawtons Drugs, Foodland, Needs and Sobeys Urban Fresh have developed into distinct and successful brand offerings that continue to serve the unique shopping requirements of our customers in a wide variety of markets.

Equally important are the benefits we continue to harness from investment in our customer insight capabilities. While our Club Sobeys, Club Thrifty Foods and AIR MILES® rewards programs are immensely

Sustained capital investment in the modernization of the Foodland, Lawtons Drugs and Needs Convenience retail networks contributed to a higher level of performance across all banners.



FOODLAND

Foodland is a full-service grocer developed for smaller communities with 196 stores in Atlantic Canada and Ontario.



**Lawtons
DRUGS**

Lawtons Drugs is one of the largest drugstore chains in Atlantic Canada with 79 locations.



Needs convenience

Needs Convenience is Sobeys' convenience format network of 134 late night and 24-hour stores in Atlantic Canada.



FRESH CO.

Fresher. Cheaper.

Sobeys' newest retail banner represents a distinctly different approach to Ontario's fastest growing food retailing segment. At FreshCo, customers can expect everyday low prices without the traditional compromises of ordinary discount stores. We call it "discount done right."

57

FreshCo stores were launched in fiscal 2011 with more to come in 2012.

popular, their greatest value lies in the rich insight they provide into our customers' buying habits and preferences. Understanding the unique needs of individual shoppers and households is a powerful advantage that allows us to anticipate interests, increase basket size and most importantly, build long-term customer relationships. It also allows us to more accurately plan and predict the outcome of our marketing and merchandising initiatives.

Such information also helps to guide innovation within the multi-tiered *Compliments* private label program which has established itself as a leading Canadian food brand. It includes *Compliments Balance*,

a growing line of healthy and delicious products that is part of a larger wellness initiative to be rolled out across our store network in the future. Eating well and feeling good are growing priorities for most Canadians. We intend to be on the forefront of this major trend with an expanding assortment of nutraceutical, specialty diet and organic products and a related program of in-store nutritional information.

Healthy Living

Increasing nutritional awareness has created significant growth opportunities for Sobeys.



PRODUCTIVITY

A sustained focus on important cost reduction and productivity initiatives has allowed Sobeys to continue to grow sales and profitability in what remains an intensely competitive market.

Ten years ago we set out on a journey to become widely recognized as the best food retailer in Canada. Since then, we have made great strides in improving the quality and consistency of our offering, modernizing our store network and providing a superior level of service while lowering our costs. These efforts have enabled us to increase both sales and earnings despite the emergence of new competitors.

Promotional activity in the grocery industry was intense in the past year, which meant that despite rising input costs, Canadian consumers continued to enjoy lower food prices. As we have said consistently over the past number of years, we will continue to do whatever it takes to maintain our competitive price position in each market we serve. Our ability to do so profitably has been enabled by our continued focus on the successful implementation of a number of cost and productivity initiatives.

The most central of these is our investment in Sobeys' enterprise-wide, integrated SAP platform. Our implementation plan remained firmly on track in fiscal 2011 with the roll out of SAP into our Québec operations.

Working Smarter

New company-wide systems are enabling vital productivity tools such as Fresh Item Management and Computer Assisted Ordering.





Sustainable Benefits

Sobeys' commitment to sustainability is reducing both the environmental impact and cost of our operations. At the end of last year, we were on track to exceed our targets of a 15 percent reduction in greenhouse gas emissions and a 30 percent reduction in waste production by 2013. We have implemented numerous energy conservation and environmental design initiatives throughout our store and distribution networks to reach these targets including energy-efficient lighting, light-dimming and motion-sensor technologies and higher-efficiency HVAC and refrigeration heat-recovery systems.

Upon projected completion of this initiative in fiscal 2013, virtually all aspects of our business across all regions of the country will be running on the same advanced SAP platform.

The replacement of legacy information systems in our other regions has already allowed us to reap the benefits of several SAP-enabled productivity tools. These include Workforce Management, which allows us to draw upon the past shopping patterns of our customers to optimize service and control labour costs more precisely, and Fresh Item Management, which has yielded similar benefits by enabling us to reduce shrink and further enhance a well-earned reputation for the consistency and quality of our fresh offering.

During the past year, we completed the implementation of Computer Assisted Ordering in our stores in our Atlantic, Ontario and West Regions. This forecasting system is enabling our people to manage inventory more precisely and improve the critical in-stock performance in our stores.

Our advanced system-wide business platform has also been the key to improving productivity in our supply chain. In January 2011 we announced plans to construct

our second automated distribution centre in Terrebonne, Québec. It will employ the latest generation of the WITRON Integrated Logistics warehousing and picking technology that has allowed us to significantly reduce per-case distribution costs and improve the accuracy and timing of deliveries in our Ontario operations.

While there are early indications of inflation as retail prices reflect manufacturers' cost increases, we expect competition to continue to be strong. We intend to seek further margin improvement through cost and productivity initiatives and will

continue to focus on operational efficiencies and product innovation to meet the needs of our local markets and customers.



The IGA extra store in Valleyfield, Québec offers an impressive selection of fresh seafood.

PEOPLE

We continue to invest in our greatest competitive strength – the people who are successfully implementing our plans and capably serving the food shopping needs of our customers.

Meeting our strategic goals over the next five years will require a greater level of clarity and alignment with our purpose, and a . order of discipline in our day-to-day execution. A key foundational element in Sobeys' ongoing journey to be widely recognized as the best food retailer in Canada has been the focus on, and investment in, our people.

Our approach to talent management has played a critical role in supporting the various stages of development of our Company over the past 10 years and will play an even greater role in our ability to succeed in the future. The successful development of a customer-focused performance culture is an ongoing journey that must be reinforced consistently over time in every corner of the organization.

Between 2000 and 2005, Sobeys focused on stabilizing the business and delivering synergies following the acquisition of the Oshawa Group and creating a compelling vision and strategy for the company. During this period, our people focus was on building leadership bench strength, articulating our food-focused strategy and communicating a compelling vision to our employees to ensure organizational alignment.

From 2005 to 2010, our primary focus was on creating the winning conditions in our operations to drive sustainable growth. This meant significant investments



eLearning

Sobeys makes training and development more accessible through web-based learning programs.



Attracting Talent

Sobeys established its Chartered Accountant Training Office in 2008. The program helps Sobeys attract and develop great talent. Michelle Lamont joined Sobeys in June 2009 and on December 3, 2010, Michelle was the first of Sobeys' CA students to celebrate success on the Uniform Final Exam (UFE). Over the next year, Michelle will continue to build her experience at Sobeys and earn her CA designation. Paul Jewer, CA, Senior Vice President, Finance and Treasurer, oversees Sobeys' Chartered Accountant Training Office.

At left: Paul Jewer and Michelle Lamont.

in expanding, upgrading and enhancing our store and distribution assets as well as developing and implementing leading-edge business processes, systems and tools. From a people perspective, we continued to strengthen leadership at all levels of the organization, while investing in employee engagement, talent management processes, succession planning and total rewards strategies.

And now, as we begin the next five years of our journey, amid what we expect will continue to be an intensely competitive marketplace, we are compelled to be even

more deliberate and disciplined in how we approach the attraction, retention, development and professional growth of those that play a critical role in serving our customers day-in and day-out.

Our comprehensive people management strategy will guide the decisions we make and the resources we invest in our employees over the next five years. It will also drive a renewed culture of performance and collaboration to fully leverage the strength of the organization as a whole.

Sobeys' career website encourages employees to investigate the wide variety of career opportunities available across the organization.



Learn more
www.sobeyscareers.com

PROUDLY SERVING OUR COMMUNITIES

We are working together more than ever before to improve the quality of life in the hundreds of Canadian communities we serve from coast to coast.

Empire has been proudly serving the communities that have welcomed our businesses for more than 100 years. Today, we support a growing range of causes across Canada at the corporate, regional and individual store levels with the vital help of our employees and the neighbourhoods in which they live and work. Our commitment also extends to the Sobey family's support of important initiatives in the fields of healthcare, education, community-building and the arts.

During the past year, more than \$20 million was contributed or raised by Sobeys and its franchise operations, Empire and its related companies, various Sobey family foundations and through the voluntary efforts and financial support of our employees, franchisees, affiliates and customers.



Walk for Kids Help Phone

More than 300 Empire Theatre employees from across Canada participated in the Walk for Kids Help Phone contributing \$65,000 to this very worthwhile cause.



Easter Seals Paper Egg Campaign

Lawtons Drugs locations across Atlantic Canada sold \$2.00 Paper Eggs in support of Easter Seals, raising \$64,000 to benefit children and adults with physical disabilities.



Fill the Food Bank. Fuel the Community.

Sobeys Atlantic customers, employees and suppliers came together to raise more than \$1 million in food and cash donations to support food banks in Atlantic Canada.

\$20 Million

In fiscal 2011, more than \$20 million was contributed to charitable causes.



Communities for a Cure

Since 2004, Foodland stores in Ontario have hosted *Communities for a Cure* – a series of community fundraising events that have raised more than \$1 million for the Canadian Cancer Society.



Becel Heart & Stroke Ride for Heart

Sobeys National office employees' participation over the past four years in the Becel Heart & Stroke Ride for Heart in Toronto has raised more than \$80,000 in support of the Heart & Stroke Foundation.



The Canadian Cancer Society's Daffodil Place

The Sobeys Foundation donated \$1 million toward the creation of Halifax's Daffodil Place – a new resource centre offering supportive care for cancer patients.



Walk to Cure Diabetes

Employees from Sobeys and IGA stores, corporate office and distribution centre in Edmonton joined together for this walk to raise more than \$8,400 for the Juvenile Diabetes Research foundation.



Straight to the Heart

Across Québec, IGA stores teamed up with suppliers to raise \$570,000 during the Straight to the Heart campaign in support of the Montréal Heart Institute Foundation.



Victoria Symphony Splash

Volunteers from Thrifty Foods raised more than \$3,000 in food sales at the Victoria Symphony Splash event held in the inner harbour of Victoria in support of the Victoria Symphony Orchestra.

STEADY PROGRESS

Empire's ability to create value is based on investments in core businesses we understand best – food retailing and related real estate. With a focus on meeting the everyday needs of Canadian consumers, these businesses have helped Empire achieve steady performance over many years.

- Sales
(\$ in millions)
- Operating
Earnings
(\$ in millions)
- Book Value
(\$ per share)

**Fiscal
2002**

\$9,926.5

\$132.2

\$19.47

March 2002
Sobeys sells its Serca Foodservice operation to SYSCO for \$411 million.

April 2003
Sobeys' sales surpass \$10 billion and capital expenditures exceed \$400 million. Real estate operations enjoy another record year.

February 2004
Sobeys acquires Comisso's Food Markets for \$61 million and the real estate division acquires Comisso's real estate assets for \$42.5 million.

June 2005
Wajax converts to an income trust. Empire sells 2.875 million units, for a \$25.6 million gain.

September 2005
Empire Theatres acquires 27 movie theatres for \$83 million.

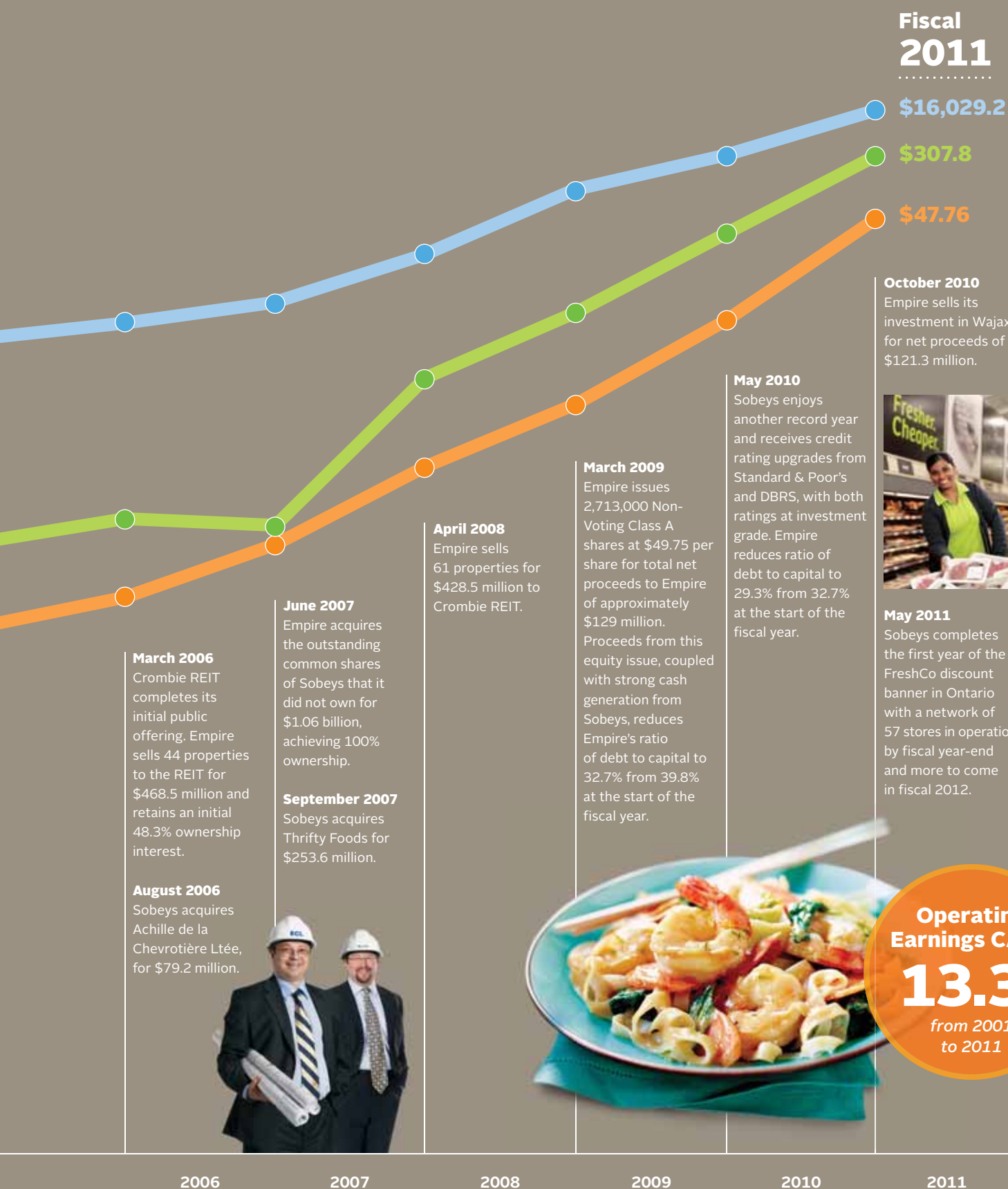
2002

2003

2004

2005





FIRMLY ON COURSE



Empire's primary objective is to maximize long-term, sustainable value by enhancing the worth of the Company's assets and having that value reflected in a higher enterprise value. We continued to do that in fiscal 2011 by maintaining a relentless focus on the businesses we know and understand best.

Empire's growing focus on food retailing and related real estate served our shareholders well in fiscal 2011 amid continued weakness in the Canadian economy. Despite intense price competition and deflationary conditions in the retail grocery industry, Sobeys managed to grow both revenue and earnings. The performance of Empire's real estate, more specifically our investment interest in Crombie REIT and Genstar, was also solid thanks to a growing concentration in a very defensive segment of the commercial real estate market and growth in residential lot sales in Western Canada.

The steadiness of Empire's performance was reflected in both its dividend and enterprise value. On June 30, 2011, the dividend payable on Empire shares was increased 12.5 percent from \$0.20 per quarter to \$0.225 per quarter, the 16th consecutive annual increase. During the past 10 years, Empire shares have generated a compound annual growth rate in total return of 13.9 percent versus 8.0 percent for the S&P/TSX Composite Index.

While the market conditions of even the most stable businesses will fluctuate from year to year, Empire's Board will always remain focused on creating sustainable growth in sales, earnings and enterprise value over the long term. We are running a marathon, not a sprint, and we have been in this race for a long time.

Our progress is guided by a capable group of seasoned executives that includes Sobeys family representatives and a majority of independent directors. This unique mix creates a healthy and challenging dynamic in which our primary focus is on long-term performance rather than quarterly results.

As a Board, our responsibilities include ensuring that we have the best people running our businesses, that we understand

and support management's strategies and that we recognize the competitive risks in a changing marketplace. We also believe in giving our executives the time and resources they need to build better, more sustainable businesses.

Our senior management teams have been doing just that. Their successful execution of numerous sales and productivity initiatives kept Sobeys growing in a very challenging year, while positioning the company for even higher levels of performance in the years ahead. They are also working more closely than ever before with an excellent management team at Crombie REIT to help foster Sobeys' growth and to increase the value of Empire's real estate interests. The close relationship between Sobeys and Crombie REIT and our focus on being the best together aligns well with our commitment to building long-term sustainable value.

In closing, I would like to extend our sincere appreciation to Christine Cross who is leaving the Board this year after four years of distinguished service. Christine contributed greatly to Empire's success and brought valuable experience as a veteran of the European grocery industry.

On behalf of the Board, I would also like to thank the thousands of employees in Empire's operating companies, franchises and other affiliates. Their efforts allowed us to achieve another successful year while creating a stronger foundation for the future.

A handwritten signature in black ink that reads "Rob Dexter".

Robert P. Dexter

Chair

Empire Company Limited

June 30, 2011



Empire Company Limited Board of Directors

1 Robert P. Dexter

Chair
Halifax, Nova Scotia
Director since 1987.

2 Marcel Côté

Montréal, Québec
Director since 2007.

3 Christine Cross

Thundridge, Hertfordshire,
United Kingdom
Director since 2007.

4 David S. Ferguson

Atlanta, Georgia
Director since 2007.

5 Edward C. Harsant

Woodbridge, Ontario
Director since 2003.

6 David Leslie

Toronto, Ontario
Director since 2007.

7 Bill M'Ewan

New Glasgow, Nova Scotia
Director since 2007.

8 Malen Ng

Toronto, Ontario
Director since 2007.

9 Mel Rhineland

Toronto, Ontario
Director since 2007.

10 Stephen J. Savidant

Calgary, Alberta
Director since 2004.

11 David F. Sobey

New Glasgow, Nova Scotia
Director since 1963.

12 Donald R. Sobey

Pictou County, Nova Scotia
Director since 1963.

13 Frank C. Sobey

Pictou County, Nova Scotia
Director since 2007.

14 John R. Sobey

Pictou County, Nova Scotia
Director since 1979.

15 Karl R. Sobey

Halifax, Nova Scotia
Director since 2001.

16 Paul D. Sobey

Pictou County, Nova Scotia
Director since 1993.

17 Robert G. C. Sobey

Stellarton, Nova Scotia
Director since 1998.

 **Learn more**
www.empireco.ca/governance

FINANCIAL SUMMARY AND HIGHLIGHTS

Fiscal 2011 earnings before capital gains and other items were \$307.8 million (\$4.51 per share), a \$23.3 million or 8.2 percent increase from the \$284.5 million (\$4.15 per share) recorded last year. Fiscal 2011 operating earnings were favourably impacted by the continued strength in the fundamentals of our core food retailing business, which also benefited from an additional week of operations and from a lower effective income tax rate. Management calculates that these two factors combined to positively impact fiscal 2011 net earnings by approximately \$9.2 million. The additional week of operations for the food retailing division (53 week year) accounted for approximately \$313.6 million in sales.

Net earnings for fiscal 2011 were \$369.5 million (\$5.42 per share) compared to \$301.9 million (\$4.40 per share) last year. The \$67.6 million or 22.4 percent increase in net earnings was the result of a \$23.3 million increase in operating earnings and an increase in net capital gains and other items of \$44.3 million, largely reflecting the sale of the investment in Wajax Income Fund.

The table below provides a comparative of key operating results for the years ended, May 7, 2011 (53 weeks), May 1, 2010 (52 weeks) and May 2, 2009 (52 weeks).

(\$ millions)	2011	2010	2009
Sales	\$ 16,029.2	\$ 15,516.2	\$ 15,015.1
EBITDA	859.5	819.4	802.3
Operating income	497.4	479.7	466.2
Interest expense	71.3	72.5	80.6
Income tax expense	109.3	117.1	115.6
Minority interest	9.0	5.6	8.3
Capital gains and other items, net of tax	61.7	17.4	3.0
Earnings before capital gains and other items	307.8	284.5	261.7
Net earnings	369.5	301.9	264.7

The Company's financial condition has improved in fiscal 2011 as evidenced by the capital structure and key financial condition measures presented in the table below.

(\$ in millions, except per share and ratio calculations)	2011	2010	2009
Shareholders' equity	\$ 3,249.0	\$ 2,952.4	\$ 2,678.8
Book value per share	\$ 47.76	\$ 43.07	\$ 39.07
Funded debt to total capital	26.4%	29.3%	32.7%
Net debt to net total capital	14.5%	21.8%	28.6%
Debt to EBITDA	1.4x	1.5x	1.6x
Total assets	\$ 6,555.4	\$ 6,248.3	\$ 5,891.1
Return on equity ("ROE")	11.9%	10.7%	10.5%

During fiscal 2011, the Company continued to generate cash flows from operating activities in excess of cash used in investing activities, as outlined in the table below.

(\$ millions)	2011	2010	2009
Cash flows from operating activities	\$ 686.6	\$ 784.1	\$ 668.0
Cash flows used in investing activities	(315.7)	(466.1)	(413.9)
Cash flows used in financing activities	(155.0)	(148.6)	(213.9)
Increase in cash and cash equivalents	\$ 215.9	\$ 169.4	\$ 40.2

Summary Statements of Earnings and Comprehensive Income

Year ended (\$ in millions except per share amounts)	May 7, 2011 (53 weeks)	May 1, 2010 (52 weeks)
Sales	\$ 16,029.2	\$ 15,516.2
Operating expenses		
Cost of sales, selling and administrative expenses	15,199.5	14,728.2
Depreciation and amortization	362.1	339.7
	467.6	448.3
Investment income	29.8	31.4
Operating income	497.4	479.7
Interest expense	71.3	72.5
	426.1	407.2
Income taxes	109.3	117.1
Minority interest	9.0	5.6
Earnings before capital gains and other items, net of tax	307.8	284.5
Capital gains and other items, net of tax	61.7	17.4
Net earnings	\$ 369.5	\$ 301.9
Other comprehensive income	7.7	20.4
Comprehensive income	\$ 377.2	\$ 322.3
Basic Earnings Per Share		
Operating earnings	\$ 4.52	\$ 4.16
Capital gains, net of tax	0.91	0.25
	\$ 5.43	\$ 4.41
Diluted Earnings Per Share		
Operating earnings	\$ 4.51	\$ 4.15
Capital gains, net of tax	0.91	0.25
	\$ 5.42	\$ 4.40

The information in this Summary Statement of Earnings and Comprehensive Income for 2011 and 2010 and the Consolidated Balance Sheets for 2011 and 2010 and the Consolidated Statements of Cash flows for 2011 and 2010, as shown on pages 24-25, corresponds to the information contained in Empire's Consolidated Financial Statements for the fiscal year ended May 7, 2011 as filed on SEDAR. For complete Audited Consolidated Financial Statements, including notes, please refer to the Consolidated Financial Statements and Management's Discussion and Analysis for fiscal year ended May 7, 2011 as filed on SEDAR.

Consolidated Balance Sheets

(\$ in millions)	May 7, 2011	May 1, 2010
Assets		
Current		
Cash and cash equivalents	\$ 616.9	\$ 401.0
Receivables	346.6	336.9
Income taxes receivable	0.3	–
Inventories	906.1	880.3
Prepaid expenses	75.2	70.1
Loans and other receivables	81.7	105.8
	2,026.8	1,794.1
Investments at realizable value	14.3	10.9
Investments, at equity (realizable value \$436.9; 2010 – \$476.8)	26.8	56.8
Loans and other receivables	68.8	79.2
Other assets	107.1	94.5
Property and equipment	2,620.1	2,548.7
Assets held for sale	59.4	36.5
Intangibles	453.7	455.0
Goodwill	1,178.4	1,172.6
	\$ 6,555.4	\$ 6,248.3
Liabilities		
Current		
Bank indebtedness	\$ 8.1	\$ 17.8
Accounts payable and accrued liabilities	1,689.0	1,621.6
Income taxes payable	–	19.5
Long-term debt due within one year	49.7	379.4
Liabilities relating to assets held for sale	12.7	–
Future tax liabilities	46.6	50.9
	1,806.1	2,089.2
Long-term debt	1,095.4	829.0
Other long-term liabilities	143.2	130.6
Future tax liabilities	95.9	86.4
Employee future benefits obligation	130.0	125.1
Minority interest	35.8	35.6
	3,306.4	3,295.9
Shareholders' equity		
Capital stock	320.5	325.1
Contributed surplus	4.7	3.2
Retained earnings	2,944.2	2,652.2
Accumulated other comprehensive loss	(20.4)	(28.1)
	3,249.0	2,952.4
	\$ 6,555.4	\$ 6,248.3

Consolidated Statements of Cash Flows

Year ended (\$ in millions)	May 7, 2011 (53 weeks)	May 1, 2010 (52 weeks)
Operating Activities		
Net earnings	\$ 369.5	\$ 301.9
Items not affecting cash	308.8	358.0
Preferred dividends	(0.1)	(0.1)
	678.2	659.8
Net change in non-cash working capital	8.4	124.3
Cash flows from operating activities	686.6	784.1
Investing Activities		
Net increase in investments	(38.4)	(50.5)
Net proceeds from sale of Wajax	121.3	–
Purchase of property and equipment	(554.0)	(434.0)
Proceeds on disposal of property and equipment	176.7	137.1
Additions to intangibles	(34.3)	(34.7)
Loans and other receivables	34.5	(44.1)
Increase in other assets	(4.5)	(5.9)
Business acquisitions	(17.0)	(34.0)
Cash flows used in investing activities	(315.7)	(466.1)
Financing Activities		
Decrease in bank indebtedness	(9.7)	(28.1)
Issue of long-term debt	218.3	97.7
Repayment of long-term debt	(272.7)	(158.6)
Decrease in minority interest	(8.8)	(8.9)
Repurchase of preferred shares	(0.1)	–
Repurchase of Non-Voting Class A shares	(27.6)	–
Common dividends	(54.4)	(50.7)
Cash flows used in financing activities	(155.0)	(148.6)
Increase in cash and cash equivalents	215.9	169.4
Cash and cash equivalents, beginning of year	401.0	231.6
Cash and cash equivalents, end of year	\$ 616.9	\$ 401.0

Years ended ⁽¹⁾	2011	2010	2009	2008
Financial Results (\$ in millions; except ROE)				
Revenue	\$ 16,029.2	\$ 15,516.2	\$ 15,015.1	\$ 14,065.0
Operating income	497.4	479.7	466.2	472.6
Interest expense	71.3	72.5	80.6	105.8
Income taxes	108.9	99.1	115.4	125.9
Minority interest	9.0	5.6	8.3	12.8
Earnings from continuing operations before net capital gains and other items	307.8	284.5	261.7	242.8
Earnings from discontinued operations ⁽²⁾	–	–	–	–
Operating earnings ⁽³⁾	307.8	284.5	261.7	242.8
Capital gains (losses) and other items, net of tax	61.7	17.4	3.0	73.0
Net earnings	369.5	301.9	264.7	315.8
Return on equity	11.9%	10.7%	10.5%	14.0%
Financial Position (\$ in millions)				
Total assets	6,555.4	6,248.3	5,891.1	5,732.9
Long-term debt (excluding current portion)	1,095.4	829.0	1,124.0	1,414.1
Shareholders' equity	3,249.0	2,952.4	2,678.8	2,382.3
Per Share Data on a Fully Diluted Basis (\$ per share)				
Operating earnings	4.51	4.15	3.97	3.69
Capital gains (losses) and other items, net of tax	0.91	0.25	0.05	1.11
Net earnings	5.42	4.40	4.02	4.80
Dividends				
Non-Voting Class A shares	0.800	0.740	0.700	0.660
Class B common shares	0.800	0.740	0.700	0.660
Book value	47.76	43.07	39.07	36.08
Share Price, Non-Voting Class A Shares (\$ per share)				
High	59.12	53.95	55.05	55.19
Low	51.07	39.70	35.00	35.40
Close	54.14	52.98	49.00	39.25
Diluted Weighted Average Number of Shares Outstanding (in millions)				
	68.2	68.5	65.8	65.7

(1) Fiscal years ended April 30th except fiscal 2005, which ended May 7, 2005, fiscal 2006, which ended May 6, 2006, fiscal 2007, which ended May 5, 2007, fiscal 2008, which ended May 3, 2008, fiscal 2009, which ended May 2, 2009, fiscal 2010, which ended May 1, 2010 and fiscal 2011 which ended May 7, 2011, reflecting a change in fiscal year-end to the first Saturday in May, consistent with the fiscal year-end of Sobeys Inc. Fiscal 2011 and 2005 were 53 week years.

(2) Discontinued operations reflect the financial contribution of SERCA Foodservice operations, which was sold at the end of 2002.

(3) Operating earnings equals net earnings before capital gains (losses) and other items, net of tax.

2007	2006	2005	2004	2003	2002	2001
\$ 13,366.7	\$ 13,063.6	\$ 12,435.2	\$ 11,284.0	\$ 10,624.2	\$ 9,926.5	\$ 9,331.1
431.1	491.4	463.7	422.8	444.4	416.2	341.1
60.1	83.8	86.7	92.4	93.7	111.6	145.8
116.9	153.1	131.2	111.0	120.0	104.8	131.9
55.4	67.1	63.6	58.5	67.5	50.0	34.3
200.1	202.0	182.9	163.3	159.3	123.5	78.5
–	–	–	–	–	8.7	10.0
200.1	202.0	182.9	163.3	159.3	132.2	88.5
5.7	94.8	3.7	9.2	(6.0)	63.7	491.5
205.8	296.8	186.6	172.5	153.3	195.9	580.0
10.0%	16.2%	11.4%	11.6%	11.3%	16.3%	67.5%
5,241.5	5,051.5	4,929.2	4,679.7	4,519.3	4,318.0	4,254.3
792.6	707.3	727.4	913.0	923.1	975.0	1,107.2
2,131.1	1,965.2	1,709.0	1,567.6	1,418.5	1,290.6	1,115.0
3.04	3.07	2.78	2.47	2.42	2.00	1.33
0.09	1.44	0.05	0.14	(0.09)	0.97	7.49
3.13	4.51	2.83	2.61	2.33	2.97	8.82
0.600	0.560	0.480	0.400	0.330	0.214	0.170
0.600	0.560	0.480	0.400	0.330	0.214	0.170
32.31	29.77	25.87	23.67	21.41	19.47	16.82
45.25	44.35	38.00	29.50	33.25	33.30	18.25
39.49	33.37	24.25	23.10	23.70	15.75	13.88
42.33	43.29	36.66	26.65	23.85	28.88	17.00
65.7	65.7	65.7	65.8	65.8	65.7	65.6

Officers of Empire Company Limited



Robert P. Dexter
Chair

Paul D. Sobey
President and
Chief Executive
Officer

Paul V. Beesley
Executive
Vice President
and Chief
Financial Officer

Frank C. Sobey
Vice President,
Real Estate

Stewart H. Mahoney
Vice President,
Treasury and
Investor Relations

Carol A. Campbell
Vice President,
Risk Management

John G. Morrow
Vice President
and Comptroller

Karin McCaskill
Corporate Secretary

Officers of Operating Companies

Sobeys Inc.



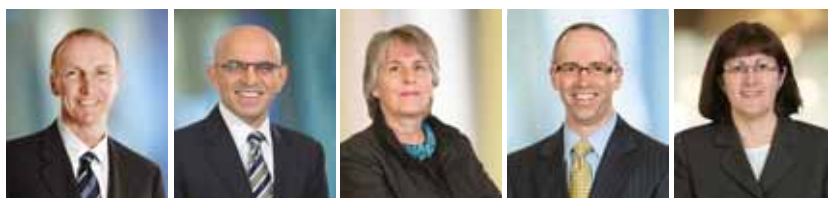
Robert P. Dexter
Chair

Bill McEwan
President and
Chief Executive
Officer

François Vimard
Chief Financial
Officer

Jason Potter
President
Operations,
Sobeys Atlantic

Marc Poulin
President
Operations,
Sobeys Québec



David Jeffs
President
Operations,
Sobeys Ontario

Ashim Khemani
Chief Leadership
Development
Officer

Karin McCaskill
Senior
Vice President,
General Counsel
and Secretary

Paul A. Jewer
Senior
Vice President,
Finance and
Treasurer

L. Jane McDow
Assistant Secretary

ECL Properties Limited



Frank C. Sobey
President

Empire Theatres Limited



Stuart G. Fraser
President and
Chief Executive
Officer

Paul W. Wigginton
Vice President,
Finance and Chief
Financial Officer

SHAREHOLDER AND INVESTOR INFORMATION

Empire Company Limited

Head Office:
115 King St.
Stellarton, Nova Scotia
B0K 1S0
Telephone: (902) 755-4440
Fax: (902) 755-6477
www.empireco.ca

Investor Relations and Inquiries

Shareholders, analysts, and investors should direct their financial inquiries or requests to:

Stewart H. Mahoney, CFA
Vice President, Treasury & Investor Relations
E-mail: investor.relations@empireco.ca

Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CIBC Mellon Trust Company.

Affiliated Company Web Addresses

www.sobeyscorporate.com
www.empiretheatres.com

Shareholders' Annual General Meeting

September 14, 2011, at 11:00 a.m. (ADT)
Empire Studio 7 Cinemas
610 East River Road
New Glasgow, Nova Scotia

Stock Exchange Listing

The Toronto Stock Exchange

Stock Symbols

Non-Voting Class A shares – EMP.A
Preferred shares: Series 2 – EMP.PR.B

Average Daily Trading Volume (TSX:EMP.A)

69,102

Dividend Record and Payment Dates for Fiscal 2012

Record Date	Payment Date
July 15, 2011	July 29, 2011
October 14, 2011*	October 31, 2011*
January 13, 2012*	January 31, 2012*
April 13, 2012*	April 30, 2012*

*Subject to approval by Board of Directors

Outstanding Shares

As of June 30, 2011

Non-Voting Class A shares	33,687,747
Class B common shares, voting	34,260,763

Transfer Agent

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
Investor Correspondence
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Telephone: (800) 387-0825
E-mail: inquiries@canstockta.com

Bankers

Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo-Mitsubishi
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank
Royal Bank of Canada
TD Bank Financial Group

Solicitors

Stewart McKelvey
Halifax, Nova Scotia

Auditors

Grant Thornton, LLP
New Glasgow, Nova Scotia

Multiple Mailings

If you have more than one account, you may receive a separate mailing for each. If this occurs, please contact CIBC Mellon Trust Company at (800) 387-0825 to eliminate the multiple mailings.

Sustainability @ Sobeys

We are committed to ensuring the well-being of our customers, communities and company without compromising the ability of future generations to prosper on the planet that we all share. To learn more about what we are doing to minimize our environmental impact, please visit:

<http://www.sobeyscorporate.com/sustainability>

www.empireco.ca



EMPIRE
COMPANY LIMITED

BEING THE BEST TOGETHER

2011 FINANCIAL REVIEW

Empire Company Limited is committed to creating sustainable value through cash flow and income growth, and equity appreciation. Since becoming a public company in 1982, we have done that by focusing on businesses that we know and understand. These businesses – food retailing, real estate and corporate investments – will continue to be our foundation and focus.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 53 weeks ended May 7, 2011, as compared to the 52 weeks ended May 1, 2010. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's divisions as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

This discussion and analysis is the responsibility of management. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee has reviewed and approved this disclosure and it has also been approved by the Board of Directors.

This discussion and analysis should be read in conjunction with the audited annual consolidated financial statements of the Company and the accompanying notes for the 53 weeks ended May 7, 2011 as compared to the 52 weeks ended May 1, 2010. The consolidated financial statements and accompanying notes have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. The information contained in this MD&A is current to June 30, 2011, unless otherwise noted.

Forward-Looking Information

This discussion contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects, and opportunities. All statements other than statements of historical facts included in this MD&A, including statements regarding the Company's objectives, plans, goals, strategies, future growth, financial condition, results of operations, cash flows, performance, business prospects and opportunities may constitute forward-looking information. Expressions such as "anticipates", "expects", "believes", "estimates", "could", "may", "plans", "will", "would", and other similar expressions or the negative of these terms are generally indicative of forward-looking statements.

These forward looking statements include the following items:

- The Company's belief that it has sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due which could be impacted by the changes in the economic environment;
- The Company's expectation that its operational and capital structure are sufficient to meet its ongoing business requirements in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other long-term obligations, all of which could be impacted by uncertainty in the economy at this time;

- The Company's anticipation that its in place sources of liquidity will adequately meet its short-term and long-term financial requirements which may be impacted by uncertainty in the economy;
- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period the matter is resolved;
- Sobeys' expectations relating to reducing costs through its productivity and system initiatives which could be impacted by the final scope and scale of these initiatives;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- Sobeys' expectations of continued sales growth in fiscal 2012 which could be impacted by changes in the competitive environment;
- Sobeys' expectation that there will be no material labour disruptions in fiscal 2012;
- The Company's expectations relating to the impact of the transition to International Financial Reporting Standards ("IFRS"), which is subject to ongoing assessment by the Company; and
- Sobeys' expectations that the new distribution centre announced in Québec will reduce overall business costs which could be impacted by the number of positions eliminated at other distribution centres.

These statements are based on Empire management's reasonable assumptions and beliefs in light of the information currently available to them. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operations as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflections of management's estimates and expectations. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These factors include but are not limited to: changes in general industry, market and economic conditions, competition from existing and new competitors, energy prices, supply issues, inventory management, changes in demand due to seasonality of the business, interest rates, changes in laws and regulations, operating efficiencies and cost saving initiatives. In addition, these uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risk Management section of this MD&A.

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of June 30, 2011, and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

Empire's Strategic Direction

Management's primary objective is to maximize the long-term sustainable value of Empire through enhancing the worth of the Company's net assets and in turn, having that value reflected in Empire's share price. This is accomplished through direct ownership and equity participation in businesses that management knows and understands and believes have the potential for long-term growth and profitability, specifically food retailing, real estate and corporate investments.

The Company continues to focus on its core strengths in food retailing and related real estate by continuing to direct its energy and capital towards growing long-term sustainable value through cash flow and income growth. While our core businesses are well established and profitable in their own right, they also offer Empire geographical diversification across Canada which is considered by management to be an additional source of strength. Together, our core businesses reduce risk and volatility thereby contributing to greater consistency in consolidated earnings growth over the long-term. Going forward, the Company intends to continue to direct its resources towards the most promising opportunities within these core businesses in order to maximize long-term shareholder value.

In carrying out the Company's strategic direction, Empire's management defines its role as having four fundamental responsibilities: first, to support the development and execution of sound strategic plans for each of its operating companies; second, to regularly monitor the development and the execution of business plans within each operating company; third, to ensure that Empire is well governed as a public company; and fourth, to prudently manage its capital in order to augment the growth in its core operating businesses.

Overview

Empire's key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through a wholly-owned operating subsidiary ECL Properties Limited ("ECL"), which at fiscal year-end on May 7, 2011 included a 46.4 percent ownership interest in Crombie REIT as well as a 40.7 percent ownership interest in Genstar Development Partnership, a 44.8 percent interest in Genstar Development Partnership II, and 42.1 percent interests in each of GDC Investments 4, L.P., GDC Investments 5, L.P. and GDC Investments 6, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States. Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited ("Empire Theatres") and Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over \$16 billion in annual sales and approximately \$6.5 billion in assets, Empire and its related companies employ approximately 100,000 people, including franchisees and affiliates.

Food Retailing

Sobeys conducts business through more than 1,300 retail grocery stores (corporately owned and franchised) which operate in every province across Canada.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right format, right-sized stores, supported by superior customer service. The five distinct store formats deployed by Sobeys to satisfy its customers' principal shopping requirements are the: full-service, fresh service, convenience service, community service and price service formats. Sobeys remains focused on improving the product, service and merchandising offerings within each format by expanding and renovating its current store base, while continuing to build new stores. Sobeys' six major banners: Sobeys, IGA *extra*, Thrifty Foods, IGA, Foodland and FreshCo are the primary focus of these format development efforts.

During the year, Sobeys opened, replaced, expanded, redeveloped, acquired and/or converted the banners in 124 stores (2010 – 76 stores). In fiscal 2011, Sobeys continued to execute a number of programs in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

One example of these initiatives was the conversion of 57 Price Chopper stores to FreshCo discount stores in fiscal 2011. These FreshCo discount stores offer low prices without many of the compromises which would typically be experienced at discount grocery retailers. FreshCo shoppers enjoy fresh merchandise at low prices, with an expanded selection of meats and produce, including high quality choices and seasonal, locally-produced products. During the 14 and 53 week periods ended May 7, 2011, Sobeys incurred approximately \$5.4 million and \$17.8 million, respectively (13 and 52 weeks ended May 1, 2010 – \$5.0 million and \$5.0 million, respectively) in start-up costs and fixed asset write-offs related to this initiative. In the second quarter of fiscal 2011, Sobeys also recorded \$16.1 million in pre-tax costs associated with the Price Chopper banner in the province of Ontario due to store closures.

Real Estate

Empire's real estate operations are focused primarily on (i) the ownership of retail and office properties through a 46.4 percent ownership interest in Crombie REIT, and (ii) residential land development principally in select communities in Ontario, Western Canada and the United States through Genstar.

It should be noted that sales, operating income and net earnings recorded in fiscal 2011 were impacted by an increase in Empire's ownership interest in Genstar Development Partnership, from 35.7 percent to 40.7 percent, during the third quarter of fiscal 2010.

With regard to commercial real estate operations, during the first quarter of fiscal 2011 Empire's internal property development function was reorganized under Sobeys, with Sobeys acquiring 12 properties from subsidiaries of ECL at their carrying value of approximately \$83.0 million. This reorganization better aligns Empire's real estate development function with the interest of Sobeys. As a result of this transfer, Empire's commercial real estate operations consists largely of its equity interest in Crombie REIT.

Investments and Other Operations

The third component of Empire's business is its investments and other operations, consisting primarily of wholly-owned Empire Theatres and Kepec. Empire Theatres is the second largest movie exhibitor in Canada which, as of May 7, 2011, owned 51 locations representing 386 screens.

Fiscal 2011 Financial Highlights (53 Weeks Versus 52 Weeks Last Year)

Highlights

- Sales of \$16.03 billion, up \$513.0 million or 3.3 percent. The additional week of operations at Sobeys accounted for approximately \$313.6 million or 2.0 percentage points of consolidated sales growth.
- Sobeys' same-store sales increased 0.2 percent.
- Effective income tax rate of 25.7 percent versus 28.8 percent last year.
- Earnings before capital gains and other items of \$307.8 million, up \$23.3 million or 8.2 percent.
- Net earnings of \$369.5 million, a \$67.6 million or 22.4 percent increase. The additional week of operations positively impacted net earnings by approximately \$6.3 million.
- Sobeys opened, acquired or replaced 44 corporate and franchised stores, expanded 12 stores, rebannered/ redeveloped 68 stores (including 57 FreshCo stores) and closed 39 stores.
- Free cash flow of \$132.6 million versus \$350.1 million last year.
- Funded debt to total capital of 26.4 percent, down 2.9 percentage points from 29.3 percent recorded at the end of last fiscal year.
- Net debt to net total capital of 14.5 percent versus 21.8 percent at the end of fiscal 2010.
- Annual dividend per Non-Voting Class A and Class B common share increased to \$0.80 from \$0.74 last year.

The consolidated financial overview provided below reports on the financial performance for fiscal 2011 relative to the last two fiscal years.

Summary Table of Consolidated Financial Results

	53 Weeks Ended May 7, 2011		52 Weeks Ended May 1, 2010		52 Weeks Ended May 2, 2009 ⁽¹⁾	
(\$ in millions, except per share amounts)	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
Sales	\$ 16,029.2	100.00%	\$ 15,516.2	100.00%	\$ 15,015.1	100.00%
Operating income	497.4	3.10%	479.7	3.09%	466.2	3.10%
Operating earnings	307.8	1.92%	284.5	1.83%	261.7	1.74%
Capital gains and other items, net of tax	61.7	0.38%	17.4	0.11%	3.0	0.02%
Net earnings	\$ 369.5	2.31%	\$ 301.9	1.95%	\$ 264.7	1.76%
Basic earnings per share						
Operating earnings	\$ 4.52		\$ 4.16		\$ 3.98	
Capital gains and other items, net of tax	0.91		0.25		0.05	
Net earnings	\$ 5.43		\$ 4.41		\$ 4.03	
Basic weighted average number of shares outstanding (in millions) ⁽²⁾	68.0		68.4		65.7	
Diluted earnings per share						
Operating earnings	\$ 4.51		\$ 4.15		\$ 3.97	
Capital gains and other items, net of tax	0.91		0.25		0.05	
Net earnings	\$ 5.42		\$ 4.40		\$ 4.02	
Diluted weighted average number of shares outstanding (in millions) ⁽²⁾	68.2		68.5		65.8	
Dividends per share	\$ 0.80		\$ 0.74		\$ 0.70	

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in the 2010 annual MD&A.

(2) The increase in the weighted average number of shares outstanding from fiscal 2009 reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 Non-Voting Class A shares being issued. The decrease in the weighted average number of shares outstanding during fiscal 2011 primarily reflects the repurchase for cancellation of 513,579 Non-Voting Class A shares under Empire's Normal Course Issuer Bid ("NCIB") during the second quarter of fiscal 2011.

Outlook

Management's primary objective will continue to be to maximize the long-term sustainable value of Empire through enhancing the worth of the Company's net assets and in turn, having that value reflected in Empire's share price.

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing, real estate and related businesses. In doing so, we remain committed to: a) supporting Sobeys in its goal to be widely recognized as the best food retailer in Canada; b) the profitable growth of our real estate business as it develops new properties that are congruent with growing Sobeys and which, upon completion, will be offered for sale to Crombie REIT; and c) capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses.

Finally, we remain committed to continued strengthening of our financial condition through the prudent management of working capital and free cash flow in each operating company.

Food Retailing Division

Sobeys will continue to invest in infrastructure and productivity improvements in a manner consistent with its expressed intention to build a healthy and sustainable retail business and infrastructure for the long term. This includes continuing to build a strong management team and progressing on the transformation process while improving the customers' in-store experience and our productivity.

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2012 that will further improve store productivity. These key customer driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

Real Estate Division

With respect to residential real estate, Empire remains committed to its investment in Genstar and is very supportive of its management and strategy. Genstar, in our view, continues to be well capitalized and, with a very capable management team, is favourably positioned to capitalize on new profitable growth opportunities. Genstar continues to seek out compelling acquisition opportunities in select regional markets. We will continue to maintain representation on the Genstar Board.

Empire expects to continue to benefit from the distinguishing advantage inherent in Empire's real estate business. Sobeys provides its substantial in-house expertise in selecting commercial locations and its robust development expertise gained from the transfer of ECL Development's team to Sobeys, while Crombie REIT provides Empire with decades of property management expertise.

As a result of our combined real estate knowledge and expertise, we are confident in our ability to steer our investment capital to locations with the greatest opportunity for economic profit and in doing so will adhere to a set of disciplined investment criteria.

In summary, management is confident that the strength of Sobeys' relationship with Crombie REIT, combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value.

Shareholder Return

The Company delivered a total shareholder return of 3.7 percent in fiscal 2011 as shown in the table below. The compound annual return on the Company's shares over the past five years has averaged 6.2 percent and over the past ten years has averaged 13.9 percent. This exceeded the compound annual return of the S&P/TSX Composite Index over the past five and ten years of 4.9 percent and 8.0 percent, respectively.

In fiscal 2011, the Company increased its dividend by 8.1 percent to \$0.80 per share. This was the fifteenth consecutive year of dividend increases. On June 30, 2011, the Board approved a further dividend increase of 12.5 percent to \$0.225 per share quarterly which amounts to \$0.90 per share on an annualized basis. Empire's dividends are declared quarterly at the discretion of the Board.

For the fiscal years ended:	May 7, 2011	May 1, 2010	May 2, 2009	May 3, 2008	May 5, 2007	5-Year CAGR ⁽¹⁾
Closing market price per share (TSX: EMP.A)	\$54.14	\$52.98	\$49.00	\$39.25	\$42.33	4.6%
Dividend paid per share	\$0.80	\$0.74	\$0.70	\$0.66	\$0.60	7.4%
Dividend yield on prior year closing price	1.5%	1.5%	1.8%	1.6%	1.4%	
Increase (decrease) in share price	2.2%	8.1%	24.8%	(7.3%)	(2.2%)	
Total annual shareholder return ⁽²⁾	3.7%	9.9%	26.8%	(5.9%)	(0.8%)	6.2%

(1) Compound annual growth rate ("CAGR").

(2) Total annual shareholder return assumes reinvestment of quarterly dividends, and therefore may not equal the sum of dividend and share price returns in the table.

Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under Canadian GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures because it believes certain investors use these measures as does management as a means of assessing financial performance. Empire's definition of the non-GAAP terms are as follows:

- Operating earnings is calculated as net earnings before capital gains (losses) and other items, net of tax.
- Operating income or earnings before interest and taxes ("EBIT") is calculated as operating earnings before minority interest, interest expense and income tax expense.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization.
- Return on equity is calculated as net earnings divided by average equity for the reporting period.
- Funds from operations is calculated as operating earnings plus depreciation and amortization.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and liabilities relating to assets held for sale.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Net total capital is total capital less cash and cash equivalents.
- Same-store sales are sales from stores in the same locations in both reporting periods.
- Free cash flow is calculated as cash flows from operating activities, less property and equipment purchases.

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to Canadian GAAP measures reported on the balance sheets as at May 7, 2011, May 1, 2010 and May 2, 2009, respectively.

(\$ in millions)	May 7, 2011	May 1, 2010	May 2, 2009 ⁽¹⁾
Bank indebtedness	\$ 8.1	\$ 17.8	\$ 45.9
Long-term debt due within one year	49.7	379.4	133.0
Liabilities relating to assets held for sale	12.7	–	–
Long-term debt	1,095.4	829.0	1,124.0
Funded debt	1,165.9	1,226.2	1,302.9
Less: cash and cash equivalents	(616.9)	(401.0)	(231.6)
Net funded debt	549.0	825.2	1,071.3
Total shareholders' equity	3,249.0	2,952.4	2,678.8
Net total capital	\$ 3,798.0	\$ 3,777.6	\$ 3,750.1

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in the 2010 annual MD&A.

(\$ in millions)	May 7, 2011	May 1, 2010	May 2, 2009 ⁽¹⁾
Funded debt	\$ 1,165.9	\$ 1,226.2	\$ 1,302.9
Total shareholders' equity	3,249.0	2,952.4	2,678.8
Total capital	\$ 4,414.9	\$ 4,178.6	\$ 3,981.7

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets. Please see the section entitled "Accounting Policy Changes" in the 2010 annual MD&A.

Management's Explanation of Fiscal 2011 Annual Consolidated Results

The following is a review of Empire's consolidated financial performance for the 53 weeks ended May 7, 2011 compared to the 52 weeks ended May 1, 2010.

The financial performance of each of the Company's businesses (food retailing, real estate, and investments and other operations) are discussed in detail in the section entitled "Fiscal 2011 Financial Performance by Division" in this MD&A.

Sales

Consolidated sales for fiscal 2011 were \$16.03 billion, an increase of \$513.0 million or 3.3 percent compared to fiscal 2010. Sales growth was largely driven by a \$518.6 million or 3.4 percent growth in sales for the food retailing division. Sobeys' sales for fiscal 2011 include an additional week of operations which accounted for approximately \$313.6 million or 2.1 percentage points of the 3.4 percent increase in Sobeys' sales. Sobeys' same-store sales increased by 0.2 percent in fiscal 2011. During periods of fiscal 2011, Sobeys experienced retail food price deflation in a competitive environment, however no inflation was experienced in the fourth quarter in aggregate. For fiscal 2011, real estate division revenue increased by \$5.0 million or 6.2 percent to \$85.6 million while sales from investments and other operations declined by \$13.2 million or 6.5 percent to \$189.0 million from the prior fiscal year. Sales from investments and other operations were primarily generated by Empire Theatres which reported one fewer week of operations in fiscal 2011.

Please refer to the section entitled "Fiscal 2011 Financial Performance by Division" for an explanation of the change in sales by division.

Operating Income

For fiscal 2011, Empire recorded operating income of \$497.4 million, an increase of \$17.7 million or 3.7 percent from \$479.7 million recorded in the prior year.

The contributors to the change in consolidated operating income from last fiscal year were as follows:

- Sobeys' operating income contribution to Empire in fiscal 2011 totalled \$445.8 million, an increase of \$20.5 million or 4.8 percent from the \$425.3 million recorded last year. Operating income benefited from the fiscal year containing 53 weeks compared to 52 weeks in the previous year.
- Residential property operating income contribution in fiscal 2011 was \$32.3 million, an increase of \$1.3 million from the \$31.0 million recorded last year due to higher revenue.
- Commercial property (including Crombie REIT) operating income in fiscal 2011 was \$21.3 million compared to \$19.8 million last year, an increase of \$1.5 million. Crombie REIT contributed \$18.7 million to operating income in fiscal 2011 versus an \$18.6 million contribution last year.
- Investments and other operations (net of corporate expenses) contributed operating income of \$(2.0) million in fiscal 2011 compared to \$3.6 million last fiscal year. Equity accounted earnings generated from the Company's former interest in Wajax declined in fiscal 2011 to \$8.7 million versus \$9.2 million last year as a result of the Company selling its investment in Wajax during the second quarter of fiscal 2011. Operating income generated from other operations (net of corporate expenses) amounted to \$(10.7) million compared to \$(5.6) million last year.

Please refer to the section entitled "Fiscal 2011 Financial Performance by Division" for an explanation of the change in operating income for each division.

Interest Expense

For the 53 weeks ended May 7, 2011, consolidated interest expense equalled \$71.3 million versus \$72.5 million in the prior year. The \$1.2 million or 1.7 percent decrease in fiscal 2011 interest expense compared to last fiscal year is primarily due to lower average funded debt levels, partially offset by higher average interest rates applicable to funded debt levels during fiscal 2011. A portion of the proceeds from the sale of the investment in Wajax and the sale of properties to Crombie REIT along with free cash flow was used to reduce consolidated funded debt outstanding in fiscal 2011; this more than offset the impact of the Medium Term Note ("MTN") issuance by Sobeys in the first quarter of fiscal 2011.

Consolidated funded debt was \$1,165.9 million at the end of fiscal 2011 compared to \$1,226.2 million at the end of fiscal 2010, a \$60.3 million or 4.9 percent decrease.

Income Tax Expense

The effective income tax rate for fiscal 2011 (excluding the impact of capital gains and other items) was 25.7 percent versus 28.8 percent in fiscal 2010. The reduction in effective income tax rate is largely attributed to declining current and future income tax rates across the different jurisdictions in which Empire operates combined with the lower effective tax rates on a number of transactions in the fiscal year.

Earnings before Capital Gains and Other Items

For the 53 weeks ended May 7, 2011, earnings before capital gains and other items amounted to \$307.8 million (\$4.51 per share) compared to \$284.5 million (\$4.15 per share) in fiscal 2010. As mentioned, fiscal 2011 earnings benefited from an additional week of operations at Sobeyes and also from a lower effective income tax rate. The \$23.3 million or 8.2 percent increase was the result of the \$17.7 million increase in operating income, a \$7.8 million decrease in income tax expense and a \$1.2 million decrease in interest expense, partially offset by a \$3.4 million increase in minority interest.

The table below presents Empire's segmented earnings before capital gains and other items by division for the 53 weeks ended May 7, 2011 as compared to the 52 weeks ended May 1, 2010.

(\$ in millions)	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$ Change	(%) Change
Food retailing	\$ 278.7	\$ 256.1	\$ 22.6	8.8%
Real estate	38.0	34.4	3.6	10.5%
Investments and other operations	(8.9)	(6.0)	(2.9)	(48.3%)
Consolidated	\$ 307.8	\$ 284.5	\$ 23.3	8.2%

Capital Gains and Other Items, Net of Tax

In fiscal 2011, the Company recorded capital gains and other items, net of tax, of \$61.7 million compared to \$17.4 million last year. Capital gains and other items in fiscal 2011 consisted primarily of a gain on the sale of Wajax of \$75.8 million, partially offset by after-tax costs of \$15.7 million related to Price Chopper store closures and one-time severance costs related to the closure of the Brantford, Ontario distribution centre.

Capital gains and other items, net of tax, in fiscal 2010 was primarily the result of a \$17.0 million tax settlement related to the fiscal 2001 sale of shares in Hannaford Bros. Co. and a \$2.9 million positive fair value adjustment on asset-backed commercial paper ("ABCP"), partially offset by Empire recording \$3.1 million for its equity share of an interest rate swap agreement which was settled by Crombie REIT during Empire's fiscal year.

The table below presents capital gains and other items, net of tax, for the 53 weeks ended May 7, 2011 compared to the 52 weeks ended May 1, 2010.

(\$ in millions)	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$ Change
Gain on sale of Wajax	\$ 75.8	\$ –	\$ 75.8
Store and distribution centre closure costs	(15.7)	–	(15.7)
Write-down of real estate	(1.8)	–	(1.8)
Change in asset-backed commercial paper	1.3	2.9	(1.6)
Other items	2.1	0.6	1.5
Equity share of Crombie REIT	–	(3.1)	3.1
Hannaford tax settlement	–	17.0	(17.0)
	\$ 61.7	\$ 17.4	\$ 44.3

Net Earnings

Net earnings for the 53 weeks ended May 7, 2011 totalled \$369.5 million (\$5.42 per share) compared to \$301.9 million (\$4.40 per share) recorded last fiscal year, an increase of \$67.6 million or 22.4 percent. The increase in net earnings for fiscal 2011 compared to fiscal 2010 reflects the increase in net capital gains and other items of \$44.3 million and the increase in earnings before capital gains and other items of \$23.3 million, as discussed.

Net earnings were favourably impacted by an additional week of operating results by Sobeys as mentioned, which had an approximate \$6.3 million positive impact on net earnings, and by a lower effective income tax rate on a number of transactions in the fiscal year. Management calculates that these two factors combined to positively impact fiscal 2011 net earnings by approximately \$9.2 million.

(\$ in millions)	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$ Change	(%) Change
Food retailing	\$ 264.3	\$ 259.0	\$ 5.3	2.0%
Real estate	38.4	31.3	7.1	22.7%
Investments and other operations	66.8	11.6	55.2	–
Consolidated	\$ 369.5	\$ 301.9	\$ 67.6	22.4%

Fiscal 2011 Financial Performance by Division

Food Retailing

Highlights

- Sobeys achieved fiscal 2011 sales growth of \$518.6 million or 3.4 percent to reach \$15.76 billion and same-store sales growth of 0.2 percent. Excluding the impact of the additional week of operations in fiscal 2011, Sobeys' sales growth equalled 1.3 percent.
- Operating cash flow of \$630.1 million versus \$682.1 million in fiscal 2010.
- Total capital expenditures equalled \$519.4 million in fiscal 2011, an increase of \$178.0 million from fiscal 2010 (primarily due to the FreshCo launch).
- Opened, acquired or replaced 44 corporate and franchised stores, expanded 12 stores, rebannered/redeveloped 68 stores (including 57 FreshCo stores) and closed 39 stores.

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

	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	52 Weeks Ended May 2, 2009 ⁽¹⁾
Sales growth	3.4%	3.2%	7.2%
Same-store sales growth	0.2%	1.9%	5.2%
Return on equity	11.2%	11.9%	11.3%
Funded debt to total capital	28.4%	27.1%	31.3%
Funded debt to EBITDA	1.3x	1.2x	1.3x
Property and equipment purchases (\$ in millions)	\$ 519 ⁽²⁾	\$ 341	\$ 354

(1) Amounts have been restated as a result of a change in accounting policy and a reclassification with respect to goodwill and intangible assets.

Please see the section entitled "Accounting Policy Changes" in the 2010 annual MD&A.

(2) This amount reflects the property and equipment purchases by Sobeys excluding amounts purchased from the Company and its wholly-owned subsidiaries.

The table below presents Sobeys' contribution to Empire's consolidated sales, EBITDA, operating income, earnings before capital gains (losses) and other items, capital gains (losses) and other items, net of tax, and net earnings.

(\$ in millions)	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$ Change	(%) Change
Sales	\$ 15,761.6	\$ 15,243.0	\$ 518.6	3.4%
EBITDA	784.8	743.6	41.2	5.5%
Operating income	445.8	425.3	20.5	4.8%
Earnings before capital gains (losses) and other items	278.7	256.1	22.6	8.8%
Capital gains (losses) and other items, net of tax	(14.4)	2.9	(17.3)	–
Net earnings	\$ 264.3	\$ 259.0	\$ 5.3	2.0%

Sales

In fiscal 2011, Sobeys achieved sales of \$15.76 billion, an increase of \$518.6 million or 3.4 percent over fiscal 2010. During the fiscal year, same-store sales increased by 0.2 percent. Fiscal 2011 included an extra week of operations which accounted for \$313.6 million or 2.1 percentage points of the 3.4 percent increase in Sobeys' fiscal 2011 sales.

Excluding the impact of the additional week of operations, the growth in total sales continued to be a direct result of the increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution and product and services innovations. During periods of fiscal 2011, Sobeys experienced retail food price deflation in a competitive environment which partially offset the growth associated with these initiatives; however, no inflation was experienced in the fourth quarter in aggregate.

Sobeys expects sales growth to continue in fiscal 2012 as a result of continued capital investment in its retail store network, and offering, merchandising, pricing and operational execution improvements across the country.

Total store square footage increased by 2.1 percent in fiscal 2011 as a result of the opening of 44 new or replacement stores and the expansion of 12 additional stores. There were 68 stores rebannered or redeveloped and 39 stores closed in fiscal 2011.

Business Process and Information Systems Transformation and Rationalization Costs

During fiscal 2011, Sobeys continued to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration.

The business process and information systems implementation in Québec began in the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 14 and 53 week periods ended May 7, 2011, \$4.0 million and \$11.5 million, respectively, (13 and 52 weeks end May 1, 2010 – \$2.5 million and \$11.3 million, respectively), of pre-tax costs were incurred related to these initiatives.

During the second quarter of fiscal 2011, Sobeys recorded \$5.4 million in pre-tax severance costs related to the closure of the Brantford, Ontario distribution centre.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec utilizing the same technology as the Vaughan, Ontario distribution centre. The new facility will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving services to its store network and customers. During fiscal 2011, Sobeys recognized \$6.2 million of pre-tax costs (2010 – \$nil) associated with this initiative.

EBITDA

Sobeys contributed EBITDA to Empire of \$784.8 million in fiscal 2011, an increase of \$41.2 million or 5.5 percent from the \$743.6 million in the same period last year. EBITDA margin for fiscal 2011, after adjusting for various consolidation entries, of 4.98 percent was up 10 basis points from 4.88 percent last year. Included in Sobeys' EBITDA for fiscal 2011 was \$6.2 million in charges incurred as part of the new distribution centre announced in Québec.

Operating Income

Sobeys' operating income contribution to Empire for fiscal 2011, which excludes the \$16.1 million in pre-tax store closure costs in Ontario and \$5.4 million in severance costs related to the closure of the Brantford, Ontario distribution centre was \$445.8 million compared to \$425.3 million last year, an increase of \$20.5 million or 4.8 percent. Sobeys' operating income margin for fiscal 2011 after adjusting for the above items equalled 2.83 percent compared to 2.79 percent last year.

Operating income recorded by Sobeys, which includes the costs associated with the store and distribution centre closures in Ontario as mentioned, was \$430.7 million compared to \$430.8 million last year.

Sobeys will continue to focus on disciplined cost management initiatives, supply chain and retail productivity improvements, the migration of best practices and planned capital investments to drive sales and improve margins over time.

Earnings before Capital Gains (Losses) and Other Items

Sobeys contributed earnings before capital gains (losses) and other items to Empire in fiscal 2011 of \$278.7 million compared to a \$256.1 million contribution last year, an increase of \$22.6 million or 8.8 percent. The improvement over last year was the result of the \$20.5 million increase in operating income contribution and the \$7.6 million decrease in income tax expense, partially offset by a \$3.4 million increase in minority interest and a \$2.1 million increase in interest expense. As mentioned, Sobeys' earnings before capital gains (losses) and other items in fiscal 2011 benefitted from an extra week and from a lower effective income tax rate.

Capital Gains (Losses) and Other Items, Net of Tax

For fiscal 2011, Sobeys contributed capital gains (losses) and other items, net of tax, of \$(14.4) million compared to \$2.9 million in fiscal 2010. Store closure costs in Ontario of \$16.1 million pre-tax (\$11.9 million after-tax) and severance costs related to the closure of the Brantford, Ontario distribution centre of \$5.4 million pre-tax (\$3.8 million after-tax), partially offset by a fair value adjustment to ABCP of \$1.6 million pre-tax (\$1.3 million after-tax) as discussed, account for Sobeys' capital gains (losses) and other items in fiscal 2011. Sobeys' capital gains (losses) and other items in fiscal 2010 are related to the fair value adjustments on Sobeys' investment in ABCP.

Net Earnings

Sobeys recorded net earnings of \$269.9 million in fiscal 2011, an increase of 2.7 percent or \$7.1 million from \$262.8 million recorded in fiscal 2010. The increase in net earnings was largely the result of the increase in earnings before capital gains and other items as discussed, partially offset by the store closure costs in Ontario and the severance costs related to the closure of the Brantford, Ontario distribution centre, which are included in capitals gains and other items. Sobeys' net earnings contribution to Empire for fiscal 2011 was \$264.3 million, an increase of \$5.3 million or 2.0 percent from the \$259.0 million recorded in fiscal 2010. Net earnings benefitted from the extra week of operations and from the lower effective tax rate, as discussed.

Real Estate

Highlights

- Transferred the internal property development function to Sobeys along with 12 properties at their carrying value of \$83.0 million in the first quarter of fiscal 2011.
- Acquired an additional \$20.5 million in Crombie REIT Class B units.
- Equity earnings from Crombie REIT of \$18.7 million versus \$18.6 million last year.
- Market price of Crombie REIT units increased 11 percent in fiscal 2011.
- Operating income from Genstar of \$32.3 million compared to \$31.0 million in fiscal 2010.

Real estate management assesses its financial performance and condition through monitoring of key financial measures. The primary financial performance and condition measures are set out below.

	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	52 Weeks Ended May 2, 2009
Funds from operations (\$ in millions)	\$ 38.7	\$ 35.7	\$ 38.5
Return on equity	12.6%	12.1%	17.8%
Funded debt to total capital	7.8%	15.0%	25.6%

The table below presents revenue, operating income, net earnings and funds from operations for the real estate division's residential and commercial operations.

(\$ in millions)	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$ Change	(%) Change
Revenue				
Residential	\$ 72.7	\$ 63.3	\$ 9.4	14.8%
Commercial	12.9	17.3	(4.4)	(25.4%)
	\$ 85.6	\$ 80.6	\$ 5.0	6.2%
Operating income				
Residential	\$ 32.3	\$ 31.0	\$ 1.3	4.2%
Crombie REIT ⁽¹⁾	18.7	18.6	0.1	0.5%
Commercial	2.6	1.2	1.4	116.7%
	\$ 53.6	\$ 50.8	\$ 2.8	5.5%
Net earnings				
Residential (operating earnings)	\$ 23.5	\$ 21.8	\$ 1.7	7.8%
Commercial (operating earnings)	14.5	12.6	1.9	15.1%
Capital gains (losses) and other items, net of tax	0.4	(3.1)	3.5	–
	\$ 38.4	\$ 31.3	\$ 7.1	22.7%
Funds from operations				
Residential	\$ 23.5	\$ 21.8	\$ 1.7	7.8%
Commercial	15.2	13.9	1.3	9.4%
	\$ 38.7	\$ 35.7	\$ 3.0	8.4%

(1) Equity accounted earnings in Crombie REIT.

Revenue

Real estate division revenue amounted to \$85.6 million in fiscal 2011 compared to \$80.6 million in the prior year. The \$5.0 million increase in revenue from the real estate division was largely the result of higher revenue from residential operations, partially offset by lower revenue from commercial operations.

Revenue from residential operations was \$72.7 million in fiscal 2011 compared to \$63.3 million last year, a \$9.4 million or 14.8 percent increase. The increase in revenue from residential operations was driven by higher residential lot sales and the sale of two commercial lots. Commercial property revenue for fiscal 2011 equalled \$12.9 million, a decrease of \$4.4 million or 25.4 percent compared to revenue of \$17.3 million reported last year primarily as a result of the transfer of 12 properties to Sobeys in the first quarter of fiscal 2011.

Operating Income

For the 53 weeks ended May 7, 2011, real estate division operating income was \$53.6 million compared to \$50.8 million in the prior fiscal year. The \$2.8 million or 5.5 percent increase in real estate division operating income was the result of a \$1.4 million increase in commercial operating income, a \$1.3 million increase in residential operating income and a \$0.1 million increase in equity earnings from Crombie REIT. Equity accounted earnings from Crombie REIT amounted to \$18.7 million in fiscal 2011 compared to \$18.6 million in fiscal 2010. The increase in other commercial property operating income was due largely to the transfer of the real estate development function to Sobeys as discussed.

Capital Gains (Losses) and Other Items, Net of Tax

Capital gains (losses) and other items, net of tax, for the real estate division totalled \$0.4 million in fiscal 2011 compared to \$(3.1) million in the prior fiscal year. The capital gains (losses) and other items recorded in fiscal 2010 are related to Empire's equity share of an interest rate swap agreement settled by Crombie REIT which it deemed was no longer an effective hedge.

Net Earnings

For fiscal 2011, the real estate division contributed net earnings to Empire of \$38.4 million compared to \$31.3 million last year, a \$7.1 million increase. The earnings increase compared to last year was the result of a change in net capital gains and other items of \$3.5 million, a \$2.8 million increase in operating income and a \$1.4 million decrease in interest expense, partially offset by a \$0.6 million increase in income tax expense.

Funds from Operations

Funds from real estate operations in fiscal 2011 of \$38.7 million increased \$3.0 million over the \$35.7 million in the prior fiscal year primarily as a result of stronger operating earnings.

Investments and Other Operations

Highlights

- Sold 27.5 percent interest in Wajax for net proceeds \$121.3 million and a net capital gain of \$75.8 million.
- Reduced funded debt by \$182.2 million while repurchasing 513,579 Non-Voting Class A shares for cancellation under Empire's NCIB.

Investment Value

At the end of fiscal 2011, Empire's total investments, including its equity accounted investment in Genstar U.S. and in Crombie REIT, carried a market value of \$451.2 million (May 1, 2010 – \$487.7 million) on a cost base of \$41.1 million (May 1, 2010 – \$67.7 million), resulting in a pre-tax unrealized gain of \$410.1 million (2010 – \$420.0 million).

At fiscal year end, May 7, 2011, Empire's investments, including equity accounted investments in Crombie REIT and Genstar U.S., consisted of:

(\$ in millions)	May 7, 2011			May 1, 2010		
	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	\$ 403.8	\$ (6.3)	\$ 410.1	\$ 341.3	\$ 8.4	\$ 332.9
Investment in Wajax ⁽¹⁾	–	–	–	117.9	30.8	87.1
Investment in Genstar U.S. ⁽²⁾	33.1	33.1	–	17.6	17.6	–
Other investments ⁽²⁾⁽³⁾	14.3	14.3	–	10.9	10.9	–
	\$ 451.2	\$ 41.1	\$ 410.1	\$ 487.7	\$ 67.7	\$ 420.0

(1) Wajax investment was sold on October 5, 2010.

(2) Assumes market value equals book value.

(3) Includes Crombie REIT convertible unsecured subordinated debenture with a market value of \$11.9 million (May 1, 2010 – \$10.7 million).

Sale of Wajax Income Fund

On October 5, 2010, Empire sold its 27.5 percent ownership interest in Wajax for net proceeds of \$121.3 million and a resulting net capital gain of \$75.8 million. The net proceeds were used to reduce Empire's direct bank indebtedness and to purchase for cancellation under Empire's NCIB a total of 513,579 Non-Voting Class A shares.

The table below highlights the financial performance of investments and other operations (net of corporate expenses) excluding equity earnings from Crombie REIT and Genstar U.S., for the 53 weeks ended May 7, 2011 compared to the 52 weeks ended May 1, 2010.

(\$ in millions)	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010	(\$ Change)
Sales	\$ 189.0	\$ 202.2	\$ (13.2)
Operating income			
Wajax	8.7	9.2	(0.5)
Other operations, net of corporate expenses	(10.7)	(5.6)	(5.1)
Total operating income	(2.0)	3.6	(5.6)
Operating earnings	(8.9)	(6.0)	(2.9)
Capital gains and other items, net of tax	75.7	17.6	58.1
Net earnings	\$ 66.8	\$ 11.6	\$ 55.2

Sales

Investments and other operations' sales, primarily generated by Empire Theatres, equalled \$189.0 million for fiscal 2011 versus \$202.2 million last year, a decrease of \$13.2 million or 6.5 percent. The decrease largely reflects lower box office attendance versus last year as a result of film product which had lower consumer appeal and the fact that Empire Theatres had an additional week of operations last year.

Operating Income

Investment and other operations (net of corporate expenses) contributed operating income of \$(2.0) million compared to \$3.6 million in the prior fiscal year. The decrease is primarily the result of the interest income of \$2.5 million associated with the Hannaford tax settlement received in fiscal 2010, reduced operating income from Empire Theatres due to lower attendance as discussed, higher corporate expenses and lower equity accounted earnings generated from the Company's former interest in Wajax.

Earnings before Capital Gains and Other Items

Investments and other operations (net of corporate expenses) contributed earnings before capital gains and other items of \$(8.9) million in fiscal 2011 compared to \$(6.0) million last year, a decrease of \$2.9 million. The decline is largely attributed to the \$2.5 million interest refund from CRA related to the Hannaford tax settlement last year, lower earnings from Empire Theatres and lower equity earnings from Wajax due to its sale in the second quarter, partially offset by lower interest expense at the corporate level.

Capital Gains and Other Items, Net of Tax

Capital gains and other items, net of tax, for investments and other operations in fiscal 2011 amounted to \$75.7 million compared to \$17.6 million last year. Fiscal 2011 capital gains and other items, net of tax, are primarily related to the sale of the Company's 27.5 percent interest in Wajax. Fiscal 2010 capital gains and other items primarily reflect the settlement of a CRA tax reassessment relating to the fiscal 2001 sale of Hannaford Bros. Co. shares for \$17.0 million after-tax.

Net Earnings

Investments and other operations (net of corporate expenses) contributed \$66.8 million to Empire's consolidated fiscal 2011 net earnings compared to an \$11.6 million net earnings contribution last year. The increase in net earnings for fiscal 2011 is largely attributed to the \$58.1 million in capital gains and other items, net of tax.

Quarterly Results of Operations

The following table is a summary of selected financial information from the Company's consolidated financial statements (unaudited) for each of the eight most recently completed quarters.

	Fiscal 2011				Fiscal 2010			
	Q4 (14 Weeks) May 7, 2011	Q3 (13 Weeks) Jan. 29, 2011	Q2 (13 Weeks) Oct. 30, 2010	Q1 (13 Weeks) July 31, 2010	Q4 (13 Weeks) May 1, 2010	Q3 (13 Weeks) Jan. 30, 2010	Q2 (13 Weeks) Oct. 31, 2009	Q1 (13 Weeks) Aug. 1, 2009
(\$ in millions, except per share information)								
Sales	\$ 4,191.5	\$ 3,884.5	\$ 3,912.0	\$ 4,041.2	\$ 3,836.8	\$ 3,836.2	\$ 3,874.7	\$ 3,968.5
Operating income	133.3	101.1	122.7	140.3	118.5	110.3	120.7	130.2
Operating earnings ⁽¹⁾	92.3	60.0	73.9	81.6	71.9	68.3	72.1	72.2
Capital gains (losses) and other items, net of tax	–	2.8	58.9	–	1.6	–	(1.7)	17.5
Net earnings	\$ 92.3	\$ 62.8	\$ 132.8	\$ 81.6	\$ 73.5	\$ 68.3	\$ 70.4	\$ 89.7
Per share information, basic								
Operating earnings	\$ 1.36	\$ 0.88	\$ 1.09	\$ 1.19	\$ 1.05	\$ 1.00	\$ 1.06	\$ 1.05
Capital gains (losses) and other items, net of tax	–	0.04	0.86	–	0.02	–	(0.03)	0.26
Net earnings	\$ 1.36	\$ 0.92	\$ 1.95	\$ 1.19	\$ 1.07	\$ 1.00	\$ 1.03	\$ 1.31
Basic weighted average number of shares outstanding (in millions) ⁽²⁾	67.8	67.8	68.1	68.4	68.4	68.4	68.4	68.4
Per share information, diluted								
Operating earnings	\$ 1.36	\$ 0.88	\$ 1.08	\$ 1.19	\$ 1.05	\$ 0.99	\$ 1.06	\$ 1.05
Capital gains (losses) and other items, net of tax	–	0.04	0.86	–	0.02	–	(0.03)	0.26
Net earnings	\$ 1.36	\$ 0.92	\$ 1.94	\$ 1.19	\$ 1.07	\$ 0.99	\$ 1.03	\$ 1.31
Diluted weighted average number of shares outstanding (in millions) ⁽²⁾	68.0	68.0	68.3	68.5	68.5	68.5	68.5	68.5

(1) Operating earnings is net earnings before capital gains (losses) and other items, net of tax.

(2) The decrease in the weighted average number of shares outstanding since the first quarter of fiscal 2011 primarily reflects the repurchase for cancellation of 513,579 Non-Voting Class A shares under Empire's NCIB during the second quarter of fiscal 2011.

Consolidated sales and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, food price and general industry trends, the cyclicity of both residential and commercial real estate and by other risk factors as outlined in this MD&A.

The Company does experience some seasonality, as evidenced in the results presented above, particularly, during the summer months and over holidays.

Summary Table of Consolidated Financial Results for the Fourth Quarter

	14 Weeks Ended May 7, 2011		13 Weeks Ended May 1, 2010	
(\$ in millions, except per share information)	\$	% of Revenue	\$	% of Revenue
Sales	\$ 4,191.5	100.00%	\$ 3,836.8	100.00%
Operating income	133.3	3.18%	118.5	3.09%
Operating earnings	92.3	2.20%	71.9	1.87%
Capital gains and other items, net of tax	–	–	1.6	0.04%
Net earnings	\$ 92.3	2.20%	\$ 73.5	1.92%
Basic earnings per share				
Operating earnings	\$ 1.36		\$ 1.05	
Capital gains and other items, net of tax	–		0.02	
Net earnings	\$ 1.36		\$ 1.07	
Basic weighted average number of shares outstanding (in millions) ⁽¹⁾	67.8		68.4	
Diluted earnings per share				
Operating earnings	\$ 1.36		\$ 1.05	
Capital gains and other items, net of tax	–		0.02	
Net earnings	\$ 1.36		\$ 1.07	
Diluted weighted average number of shares outstanding (in millions) ⁽¹⁾	68.0		68.5	
Dividends per share	\$ 0.200		\$ 0.185	

(1) The decrease in the weighted average number of shares outstanding during fiscal 2011 primarily reflects the repurchase for cancellation of 513,579 Non-Voting Class A shares under Empire's NCIB during the second quarter of fiscal 2011.

The following is a review of financial performance for the 14 weeks ended May 7, 2011 compared to the 13 weeks ended May 1, 2010.

Sales

Consolidated sales for the fourth quarter of fiscal 2011 were \$4.19 billion compared to \$3.84 billion last year, a \$354.7 million or 9.2 percent increase. Sobeys' sales increased by \$348.1 million or 9.3 percent to \$4.10 billion compared to \$3.75 billion in the fourth quarter of fiscal 2010. Sobeys' same-store sales increased 1.0 percent compared to the fourth quarter last year.

The fourth quarter of fiscal 2011 contained 14 weeks of operations for Sobeys compared to 13 weeks in fiscal 2010. The additional week of operations accounted for \$313.6 million or 8.4 percentage points of the 9.3 percent increase in Sobeys' fourth quarter sales and approximately \$6.3 million of fourth quarter net earnings. Growth in Sobeys' total sales was also a result of increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovations. Sobeys experienced no inflation in the fourth quarter in aggregate.

Real estate revenue in the fourth quarter was \$45.3 million, an increase of \$12.5 million from the \$32.8 million recorded in the fourth quarter last year. Residential property revenue increased by \$13.9 million while commercial property revenue decreased by \$1.4 million from the fourth quarter last year. The increase in residential property revenue was due to two commercial lot sales and higher residential lot sales relative to the same quarter last year.

Sales from investments and other operations in the fourth quarter of fiscal 2011 equalled \$45.1 million compared to \$52.3 million in the same quarter last year, a decrease of \$7.2 million or 13.8 percent. This is primarily related to lower box office attendance experienced by Empire Theatres and the industry generally in the quarter due to film product which had lower consumer appeal.

Operating Income

Consolidated operating income in the fourth quarter was \$133.3 million, an increase of \$14.8 million or 12.5 percent from the \$118.5 million recorded in the fourth quarter last year.

The contributors to the change in consolidated operating income from the fourth quarter last year were as follows:

- Sobeys' operating income contribution to Empire in the fourth quarter totalled \$115.9 million, an increase of \$17.5 million or 17.8 percent from the \$98.4 million recorded in the fourth quarter last year. Operating income benefitted from the fourth quarter containing 14 weeks compared to 13 weeks the previous year;
- Residential property operating income contribution in the fourth quarter was \$18.1 million, an increase of \$3.3 million from the \$14.8 million recorded in the fourth quarter last year as a result of higher revenue;
- Commercial property (including Crombie REIT) operating income for the quarter was \$4.9 million compared to \$4.0 million in the fourth quarter last fiscal year, an increase of \$0.9 million. Crombie REIT contributed \$5.1 million to operating income in the fourth quarter versus a \$4.4 million contribution in the fourth quarter last year; and
- Investments and other operations (net of corporate expenses) contributed operating income of \$(5.6) million in the fourth quarter compared to \$1.3 million in the fourth quarter last year. Included in operating income from investments and other operations in the fourth quarter last year was equity accounted earnings generated from Empire's investment in Wajax of \$2.3 million. The Wajax investment was sold during the second quarter of fiscal 2011. Operating income generated from other operations (net of corporate expenses) amounted to \$(5.6) million compared to \$(1.0) million in the fourth quarter last year. The decrease in operating income generated from other operations was driven by reduced income from lower attendance at Empire Theatres as discussed and higher corporate expenses.

Interest Expense

Interest expense in the fourth quarter amounted to \$16.9 million, a decrease of \$1.3 million or 7.1 percent from the \$18.2 million recorded in the fourth quarter last year. The decline in interest expense largely reflects a decrease in average consolidated funded debt outstanding, partially offset by higher average interest rates applicable to funded debt levels during the quarter which were principally related to the issuance by Sobeys of a 30-year MTN during the first quarter of fiscal 2011 and higher rates applicable on floating rate debt.

Income Tax Expense

The effective income tax rate for the fourth quarter (excluding the impact of capital gains and other items) was 18.3 percent versus 28.0 percent in the fourth quarter last year. The reduction in the effective tax rate was primarily due to the timing benefit associated with declining current and future income tax rates across the different jurisdictions in which Empire operates, combined with the timing of the realization of tax benefits during the fiscal year.

Earnings before Capital Gains and Other Items

For the 14 weeks ended May 7, 2011, Empire recorded earnings before capital gains and other items of \$92.3 million (\$1.36 per share) versus \$71.9 million (\$1.05 per share) last year, a \$20.4 million or 28.4 percent increase. As mentioned, fourth quarter fiscal 2011 earnings benefitted from an additional week of operations and also from a lower effective income tax rate. The increase in earnings before capital gains and other items was the result of the \$14.8 million increase in operating income, a decrease in income tax expense of \$6.8 million and a \$1.3 million decrease in interest expense, partially offset by an increase in minority interest of \$2.5 million.

Capital Gains and Other Items, Net of Tax

The Company reported no capital gains and other items, net of tax, in the fourth quarter compared to capital gains and other items, net of tax, of \$1.6 million last year. Capital gains and other items, net of tax, in the fourth quarter of fiscal 2010 primarily related to a positive fair value adjustment to Sobeys' investment in ABCP.

Net Earnings

Consolidated net earnings in the fourth quarter of fiscal 2011 equalled \$92.3 million (\$1.36 per share) compared to \$73.5 million (\$1.07 per share) in the fourth quarter last year, an increase of \$18.8 million or 25.6 percent. The increase in net earnings was due to the \$20.4 million increase in earnings before capital gains and other items, partially offset by a decrease in net capital gains and other items of \$1.6 million.

Net earnings in the fourth quarter of fiscal 2011 were favourably impacted by a 14th week of operating results by Sobeys and by a lower effective income tax rate. The reduction in the effective tax rate is largely attributed to declining current and future income tax rates across the different jurisdictions in which Empire operates, combined with the timing of the realization of tax benefits and the lower effective tax rates on a number of transactions in the fiscal year. Management calculates that the additional week of operations by Sobeys positively impacted fourth quarter fiscal 2011 net earnings by approximately \$6.3 million and that the lower effective income tax rate positively impacted fourth quarter net earnings by approximately \$10.9 million.

Consolidated Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition improved in fiscal 2011 as evidenced by the capital structure and key financial condition measures in the table below.

(\$ in millions, except per share and ratio calculations)	May 7, 2011	May 1, 2010	May 2, 2009
Shareholders' equity	\$ 3,249.0	\$ 2,952.4	\$ 2,678.8
Book value per share	\$ 47.76	\$ 43.07	\$ 39.07
Bank indebtedness	\$ 8.1	\$ 17.8	\$ 45.9
Long-term debt, including current portion ⁽¹⁾	\$ 1,157.8	\$ 1,208.4	\$ 1,257.0
Funded debt to total capital	26.4%	29.3%	32.7%
Net debt to net total capital ⁽²⁾	14.5%	21.8%	28.6%
Debt to EBITDA ⁽³⁾	1.4x	1.5x	1.6x
EBITDA to interest expense	12.1x	11.3x	10.0x
Total assets	\$ 6,555.4	\$ 6,248.3	\$ 5,891.1

(1) Includes liabilities related to assets held for sale.

(2) Net debt to net total capital reduces funded debt by cash and cash equivalents.

(3) Calculation uses trailing 12-month EBITDA and interest expense.

Shareholders' Equity

Book value per common share was \$47.76 at May 7, 2011 compared to \$43.07 at May 1, 2010 and \$39.07 at May 2, 2009. The increase in book value in the current fiscal year reflects the Company's earnings growth as discussed.

The Company's share capital on May 7, 2011 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	\$ Millions
Preferred shares, par value \$25 each, issuable in series.			
Series 2, cumulative, redeemable, rate of 75% prime.	2,679,000	164,900	\$ 4.1
2002 Preferred shares par value \$25 each, issuable in series.	992,000,000	–	–
Non-Voting Class A shares, without par value.	258,593,856	33,687,747	311.7
Class B common shares, without par value, voting.	40,800,000	34,260,763	7.6
			323.4
Employees' Share Purchase Plan			(2.9)
			\$ 320.5

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 7, 2011 for a total of 67,948,510 shares, a decrease of 509,751 shares from the previous fiscal year-end. The decrease is due to the repurchase for cancellation of 513,579 Non-Voting Class A shares for \$27.6 million (average share price – \$53.72) during the second quarter under Empire's NCIB filed with the Toronto Stock Exchange on September 15, 2010, partially offset by 3,828 Non-Voting Class A shares issued under Empire's long-term incentive plan. There were no Non-Voting Class A shares repurchased for cancellation in fiscal 2010.

During fiscal 2011, 150,464 options (2010 – 162,399 options) were issued under Empire's long-term incentive plan. The options issued in fiscal 2011 allow the holder to purchase Non-Voting Class A shares at \$51.99 per share (2010 – \$46.04 per share). Empire had 565,571 options outstanding at May 7, 2011 compared to 433,209 options outstanding at May 1, 2010. There were 18,102 options exercised during fiscal 2011 under the cashless exercise provision of Empire's long-term incentive plan resulting in delivery of 3,828 Non-Voting Class A shares compared to no options exercised in fiscal 2010. During fiscal 2010, 11,923 options were forfeited.

The table below presents the number of outstanding options and weighted average exercise price over the last two fiscal years.

	May 7, 2011		May 1, 2010	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Balance, beginning of year	433,209	\$ 43.22	282,733	\$ 41.47
Granted	150,464	51.99	162,399	46.04
Exercised	(18,102)	43.13	–	–
Forfeited	–	–	(11,923)	40.26
Balance, end of year	565,571	\$ 45.55	433,209	\$ 43.22
Stock options exercisable, end of year	187,658		90,894	

The 565,571 stock options outstanding as at the fiscal year ended May 7, 2011 (May 1, 2010 – 433,209 stock options) represents 0.8 percent (May 1, 2010 – 0.6 percent) of the outstanding Non-Voting Class A shares and Class B common shares.

During fiscal 2011, there were 3,100 Series 2 preferred shares purchased for cancellation for \$0.1 million (average share price – \$24.70) compared to no Series 2 preferred shares purchased for cancellation in fiscal 2010.

As at June 30, 2011, the Company had total Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 565,571 options to acquire in aggregate 565,571 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$54.4 million in fiscal 2011 (\$0.80 per share) versus \$50.7 million (\$0.74 per share) in fiscal 2010.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. At the end of fiscal 2011, the Company's total long-term debt (including the current portion long-term debt) was \$1,157.8 million (2010 – \$1,208.4 million), representing 99.3 percent (2010 – 98.5 percent) of Empire's total funded debt of \$1,165.9 million (2010 – \$1,226.2 million).

Consolidated funded debt decreased by \$60.3 million from the \$1,226.2 million reported at the end of fiscal 2010 on May 1, 2010. The decrease in funded debt since the start of the fiscal year is due primarily to the application of proceeds from the sale of the Company's interest in Wajax and from the sale of 12 properties to Crombie REIT, partially offset by Sobeys' \$150.0 million 30-year MTN issuance in the first quarter of fiscal 2011. The ratio of funded debt to total capital improved to 26.4 percent from 29.3 percent at the end of fiscal 2010. The 2.9 percentage point improvement is the result of lower funded debt levels as discussed and higher equity levels due to growth in retained earnings.

The long-term debt is segmented by division as follows:

Long-term debt (including current portion) (\$ in millions)	May 7, 2011	May 1, 2010	May 2, 2009
Food retailing	\$ 1,002.1	\$ 858.7	\$ 954.0
Real estate	19.4	35.3	39.6
Investments and other operations	136.3	314.4	263.4
Total	\$ 1,157.8	\$ 1,208.4	\$ 1,257.0

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 10 and 11 to the Company's annual audited consolidated financial statements for fiscal 2011.

On September 14, 2009, DBRS upgraded Sobeys' credit rating to BBB with a stable trend. On January 12, 2010, S&P upgraded its credit rating on Sobeys from BB+ with a positive trend to BBB- with a stable trend.

On May 25, 2010 Sobeys filed a short form prospectus providing for the issuance of up to \$500.0 million of unsecured Medium Term Notes. On June 7, 2010, Sobeys issued new Medium Term Notes of \$150.0 million, maturing on June 7, 2040.

Empire's EBITDA to interest expense ratio in fiscal 2011 was 12.1 times, an improvement from the 11.3 times recorded in fiscal 2010. The increase in the EBITDA to interest expense ratio over fiscal 2010 is due primarily to improvement in EBITDA to \$859.5 million from \$819.4 million a year earlier and a marginal decline in interest expense.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with during fiscal 2011 and fiscal 2010.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity price risk. From time to time, Empire or one of its subsidiaries will use a financial instrument for the purpose of mitigating its exposure to one or more types of financial risk. Empire and its subsidiaries do not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 14 or 53 weeks ended May 7, 2011 or the 13 and 52 weeks ended May 1, 2010.

When Empire or its subsidiaries enter into a financial instrument contract, the Company is exposed to potential credit risk associated with the counterparty of the contract defaulting. To mitigate this risk exposure, Empire monitors the credit worthiness of the various contract counterparties on an ongoing basis and will take corrective actions as deemed appropriate should a counterparty's credit profile change dramatically.

In-Place Financial Instruments

Empire and its subsidiaries utilize interest rate instruments from time to time to manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At May 7, 2011, there were three interest rate hedges in place with a fair value of \$(9.0) million. Sensitivity analysis has been prepared to determine the impact of a change in the underlying forward rate curves on the fair values reported as of May 7, 2011. A parallel shift up or (down) in the underlying forward rate curve of 25 basis points would impact the fair value of the swaps by plus or minus \$0.7 million and impact other comprehensive income by plus or minus \$0.5 million.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of \$1.015 Canadian Dollar ("CAD") / United States Dollar ("USD") to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of May 7, 2011, Sobeys recognized a liability of \$0.6 million relating to this instrument. Sobeys estimates that a 10.0 percent increase or (decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus or minus \$1.0 million and would impact other comprehensive income by plus or minus \$0.7 million.

To mitigate the currency risk associated with the Company's Euro purchases, Sobeys entered into forward currency contracts with staggered maturities to act as a hedge against the effect of changes in the value of the CAD relative to the Euro. As at May 7, 2011, Sobeys had recognized an asset of \$0.3 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase or (decrease) in applicable exchange rates would impact the fair value by plus or minus \$3.5 million and other comprehensive income by plus or minus \$2.4 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as "Held for Trading" on the balance sheet and recorded at fair value. The estimated fair values of the financial instruments as at May 7, 2011 were based on relevant market prices and information available at the reporting date. The Company determines fair value of each financial instrument by reference to external and third-party quoted bid, ask, and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 1 and 22 to the Company's annual audited financial statements for fiscal 2011.

Liquidity and Capital Resources

Empire's liquidity remained strong at May 7, 2011 as a result of the following sources:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities; and
- Cash generated from operating activities.

At May 7, 2011, consolidated cash and cash equivalents were \$616.9 million versus \$401.0 million at the prior fiscal year end on May 1, 2010.

At the end of fiscal 2011, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of \$450.0 million, of which approximately \$118.3 million or 26.3 percent was utilized. Empire's non-consolidated credit facility of \$650.0 million matured on June 8, 2010. Prior to its maturity, on June 4, 2010, Empire renewed its credit facility for an additional three year term, to expire on June 30, 2013. The size of the facility was reduced to \$450 million reflecting both strong cash generation and improved financial condition. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately \$725.2 million at May 7, 2011. During the third quarter of fiscal 2011, Sobeys allowed a \$75 million bank credit facility to mature without renewal.

The Company anticipates that the above mentioned in-place sources of liquidity will adequately meet its short-term and long-term financial requirements. The Company mitigates potential liquidity risk by ensuring its various sources of funds are diversified by term to maturity and source of credit.

The following table highlights major cash flow components for the 14 and 53 weeks ended May 7, 2011 compared to the 13 and 52 weeks ended May 1, 2010.

(\$ in millions)	14 Weeks Ended May 7, 2011	13 Weeks Ended May 1, 2010	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010
Net earnings (net of preferred dividends)	\$ 92.3	\$ 73.5	\$ 369.4	\$ 301.8
Items not affecting cash	101.2	72.8	308.8	358.0
Net change in non-cash working capital	193.5 150.0	146.3 174.5	678.2 8.4	659.8 124.3
Cash flows from operating activities	343.5	320.8	686.6	784.1
Cash flows used in investing activities	(171.9)	(92.8)	(315.7)	(466.1)
Cash flows used in financing activities	(36.1)	(83.5)	(155.0)	(148.6)
Increase in cash and cash equivalents	\$ 135.5	\$ 144.5	\$ 215.9	\$ 169.4

Operating Activities

Fourth quarter cash flows from operating activities equalled \$343.5 million compared to \$320.8 million last year. The increase of \$22.7 million is attributed to an increase in items not affecting cash of \$28.4 million and an increase in earnings available for common shareholders of \$18.8 million, offset by a decrease in the net change in non-cash working capital of \$24.5 million.

Fiscal 2011 cash flows from operating activities equalled \$686.6 million compared to \$784.1 million last year. The decrease of \$97.5 million is attributed to a decrease in the net change in non-cash working capital of \$115.9 million and a decrease in items not affecting cash of \$49.2 million, partially offset by an increase in earnings available for common shareholders of \$67.6 million.

The following tables present non-cash working capital changes on a quarter-over-quarter basis and on a year-over-year basis.

Non-Cash Working Capital (Quarter-Over-Quarter)

(\$ in millions)	May 7, 2011	Jan. 29, 2011	14 Weeks Ended May 7, 2011 Increase (Decrease) in Cash Flows	13 Weeks Ended May 1, 2010 Increase (Decrease) in Cash Flows
Receivables	\$ 346.6	\$ 360.5	\$ 13.9	\$ (45.9)
Inventories	906.1	935.5	29.4	43.7
Prepaid expenses	75.2	46.4	(28.8)	(19.0)
Accounts payable and accrued liabilities	(1,689.0)	(1,553.6)	135.4	158.0
Income taxes receivable	0.3	5.4	5.1	12.2
Impact of reclassifications on working capital ⁽¹⁾	5.0	–	(5.0)	25.5
Total	\$ (355.8)	\$ (205.8)	\$ 150.0	\$ 174.5

(1) Reclassifications primarily relate to business acquisitions and rationalization costs.

Non-Cash Working Capital (Year-Over-Year)

(\$ in millions)	May 7, 2011	May 1, 2010	53 Weeks Ended May 7, 2011 Increase (Decrease) in Cash Flows
Receivables	\$ 346.6	\$ 336.9	\$ (9.7)
Inventories	906.1	880.3	(25.8)
Prepaid expenses	75.2	70.1	(5.1)
Accounts payable and accrued liabilities	(1,689.0)	(1,621.6)	67.4
Income taxes receivable (payable)	0.3	(19.5)	(19.8)
Impact of reclassifications on working capital ⁽¹⁾	(1.4)	–	1.4
Total	\$ (362.2)	\$ (353.8)	\$ 8.4

(1) Reclassifications primarily relate to business acquisitions and rationalization costs.

The net change in non-cash working capital of \$150.0 million in the fourth quarter was due to a \$135.4 million increase in accounts payable and accrued liabilities, a \$29.4 million decrease in inventories, a \$13.9 million decrease in receivables and a decrease in income taxes receivable of \$5.1 million, partially offset by an increase in prepaid expenses of \$28.8 million and the impact of reclassifications on working capital totalling \$(5.0) million. The increase in accounts payable and accrued liabilities reflects Sobeys' focus on managing working capital. Prepaid expenses increased largely as a result of the \$28.8 million increase at Sobeys due to an increase in prepaid rent as a result of the prior quarter ending before the first of the month when rent is typically paid.

The net change in non-cash working capital of \$8.4 million in fiscal 2011 was due to accounts payable and accrued liabilities increasing by \$67.4 million and the impact of reclassifications on working capital of \$1.4 million, partially offset by an increase in inventories of \$25.8 million, an increase in income taxes receivable of \$19.8 million, an increase in receivables of \$9.7 million and an increase in prepaid expenses of \$5.1 million. Accounts receivable increased as a result of increased sales at the end of the fourth quarter compared to the prior year combined with additional receivables amounts related to franchisees that are no longer VIEs. Accounts payable also increased as a result of a change in the timing of payments for inventory and capital asset purchases by Sobeys combined with incremental accruals related to rationalization costs incurred by Sobeys during the year. The increase in inventories was driven by an increase at Sobeys to support its higher sales volume due to the increased amount of square footage in its expanded store network, the timing of its purchases as well as inflation in the cost of certain items.

Investing Activities

Cash flows used in investing activities of \$171.9 million in the fourth quarter compares to cash used in investing activities of \$92.8 million in the same quarter last year. The change of \$79.1 million is largely the result of a \$44.5 million increase in cash used for the purchase of property and equipment relative to the fourth quarter last year and a \$48.9 million decrease in proceeds on disposal of property and equipment relative to the fourth quarter last year.

Consolidated purchases of property and equipment totalled \$172.5 million in the fourth quarter of fiscal 2011 compared to \$128.0 million in the fourth quarter last year. The increase in property and equipment purchases of \$44.5 million is primarily a result of capital additions at Sobeys (mainly to the FreshCo banner), partially offset by a decrease in the purchase of property and equipment by the real estate division.

Cash flows used in investing activities in fiscal 2011 totalled \$315.7 million, a decrease of \$150.4 million from the cash flows used in investing activities of \$466.1 million in fiscal 2010. The following factors are largely responsible for the decrease: the sale of the investment in Wajax for net proceeds of \$121.3 million; a change in loans and other receivables relative to last year of \$78.6 million; a \$39.6 million increase in proceeds from disposal of property and equipment; and, a decrease in the cash used for business acquisitions relative to the same period last year of \$17.0 million; partially offset by a \$120.0 million increase in consolidated purchases of property and equipment.

Proceeds on disposal of property and equipment decreased \$48.9 million from the fourth quarter last year to \$16.7 million in the fourth quarter of fiscal 2011. Proceeds on disposal of property and equipment in the fourth quarter of fiscal 2010 were largely related to the sale of eight properties to Crombie REIT for cash proceeds of \$56.7 million as discussed in the "Related-Party Transactions" section of this MD&A.

For fiscal 2011, proceeds on disposal of property and equipment equalled \$176.7 million compared to \$137.1 million last year, a \$39.6 million increase. Proceeds on disposal of property and equipment in the 53 weeks ended May 7, 2011 include the sale of 12 properties (52 weeks ended May 1, 2010 – eight properties) to Crombie REIT as discussed in the "Related-Party Transactions" section of this MD&A.

In fiscal 2010, ECL increased its ownership of Genstar for cash consideration of \$17.2 million. This acquisition was accounted for using the purchase method with net identifiable assets, primarily land inventory, recorded at \$22.6 million and future income taxes recorded at \$5.4 million.

Included in cash used in investing activities for fiscal 2011 is an additional investment of \$20.5 million (2010 – \$30.0 million) in Crombie REIT Class B units. Fiscal 2010 also includes an investment of \$10.0 million in Crombie REIT convertible unsecured subordinated debentures as discussed in the "Related-Party Transactions" section of this MD&A.

The table below outlines the number of stores Sobeys invested in during the fourth quarter of fiscal 2011 compared to the same quarter of fiscal 2010, as well as for the 53 weeks ended May 7, 2011 compared to the 52 weeks ended May 1, 2010.

Sobeys' Corporate and Franchised Store Construction Activity

# of Stores	14 Weeks Ended May 7, 2011	13 Weeks Ended May 1, 2010	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010
Opened/Acquired/Relocated	15	11	44	41
Expanded	4	4	12	13
Rebanned/Redeveloped	24	14	68	22
Closed	22	17	39	52

At May 7, 2011, Sobeys' square footage totalled 28.7 million square feet, a 2.1 percent increase over the 28.1 million square feet in operation at the end of the fourth quarter of last year.

The following table shows Sobeys' square footage changes for the 14 and 53 weeks ended May 7, 2011 by type.

Sobeys' Square Footage Changes

(in thousands) Square Feet	14 Weeks Ended May 7, 2011	53 Weeks Ended May 7, 2011
Opened	319	896
Relocated	–	79
Acquired	–	–
Expanded	35	101
Closed	(311)	(489)
Net Change	43	587

Capital expenditures for the food retailing division in fiscal 2011 equalled \$519.4 million compared to \$341.4 million in fiscal 2010. Capital expenditures for the real estate division equalled \$10.6 million in fiscal 2011 (\$68.1 million in fiscal 2010) as a result of the transfer of the internal property development function to Sobeys in the first quarter of fiscal 2011. Capital spending by investments and other operations (primarily Empire Theatres) equalled \$24.0 million in fiscal 2011 (\$24.5 million in fiscal 2010).

Financing Activities

Financing activities during the fourth quarter used \$36.1 million of cash compared to \$83.5 million of cash used in financing activities in the same quarter last year. The decrease of \$47.4 million in cash flows used in financing activities compared to the same quarter last year is primarily the result of an increase in bank indebtedness of \$2.1 million in the fourth quarter compared to a \$71.4 million decrease in the same quarter last year, partially offset by a increase in the repayment of long-term debt of \$28.2 million.

Financing activities in fiscal 2011 used \$155.0 million of cash compared to \$148.6 million of cash used in financing activities in fiscal 2010. The increase of \$6.4 million in cash flows used in financing activities compared to last year is primarily the result of an increase in the repayment of long-term debt of \$114.1 million and an increase in cash used for the repurchase of Non-Voting Class A shares of \$27.6 million, partially offset by an increase in the issuance of long-term debt of \$120.6 million and a decline in cash used to decrease bank indebtedness of \$18.4 million.

In fiscal 2011 Empire purchased for cancellation 513,579 Non-Voting Class A shares for \$27.6 million, as discussed.

The Company believes that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund its future capital investments, pension plan contributions, working capital and ongoing business requirements. The Company believes it has sufficient funding in place to meet these requirements and other long-term obligations.

Guarantees and Commitments

The following illustrates the Company's significant contractual obligations, over the next five fiscal years and thereafter.

Gross Obligations Excluding Lease Income

(\$ in millions)	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt	\$ 36.5	\$ 216.8	\$ 172.1	\$ 26.7	\$ 12.5	\$ 641.9	\$ 1,106.5
Capital leases	15.2	10.6	7.2	3.4	5.3	10.1	51.8
Operating leases							
Third-parties	322.1	303.9	264.7	248.8	231.5	1,440.5	2,811.5
Related-parties	55.3	54.3	47.3	47.0	46.5	518.5	768.9
Total operating leases	377.4	358.2	312.0	295.8	278.0	1,959.0	3,580.4
Total contractual obligations	\$ 429.1	\$ 585.6	\$ 491.3	\$ 325.9	\$ 295.8	\$ 2,611.0	\$ 4,738.7

Operating Leases, Net of Expected Lease Income Received by the Company

(\$ in millions)	2012	2013	2014	2015	2016	Thereafter	Total
Third-parties	\$ 251.0	\$ 235.6	\$ 201.2	\$ 189.9	\$ 178.8	\$ 1,069.9	\$ 2,126.4
Related-parties	55.3	54.3	47.3	47.0	46.5	518.5	768.9
	\$ 306.3	\$ 289.9	\$ 248.5	\$ 236.9	\$ 225.3	\$ 1,588.4	\$ 2,895.3

Franchise Affiliates

During fiscal 2008, Sobeys entered into a guarantee contract. Under the terms of the guarantee, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of \$7.0 million or 9.9 percent (2010 – \$7.0 million or 9.9 percent) of the unfulfilled obligation balance. The terms of the guarantee contract are reviewed annually each August. As at May 7, 2011 the amount of the guarantee was \$7.0 million (May 1, 2010 – \$7.0 million).

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee, should franchise affiliates be unable to fulfill its lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of \$70.0 million on a cumulative basis. Sobeys approves each of the contracts.

During fiscal 2009, Sobeys entered into an additional credit enhancement in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of \$4.0 million or 10.0 percent (2010 – \$4.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favorable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys has determined that there were no material implications with respect to the consolidation of VIE's. As of May 7, 2011, the amount of the guarantee was \$4.2 million (2010 – \$4.0 million).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2012 is approximately \$25.6 million. Guaranteed lease commitments over the next five fiscal years and thereafter are as follows:

(\$ in millions)	Guaranteed Lease Commitments
2012	\$ 25.6
2013	\$ 10.2
2014	\$ 3.4
2015	\$ 1.2
2016	\$ –
Thereafter	\$ –

Other

At May 7, 2011, the Company was contingently liable for letters of credit issued in the aggregate amount of \$46.2 million (2010 – \$50.1 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys Capital Incorporated, a direct subsidiary of Sobeys, guaranteed to the landlord the performance by Serca Foodservice Inc., of all of its obligations under the lease. The remaining term of the lease is 9 years with an aggregate obligation of \$28.6 million (2010 – \$31.6 million). 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 a subsidiary of the purchaser and SYSCO Corp. agreed to indemnify and hold Sobeys Capital Incorporated harmless from any liability it may incur pursuant to its guarantee.

Free Cash Flow

Free cash flow (see Non-GAAP measures section) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows from operating activities for the 14 and 53 week periods ended May 7, 2011 and the 13 and 52 week periods ended May 1, 2010.

(\$ in millions)	14 Weeks Ended May 7, 2011	13 Weeks Ended May 1, 2010	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010
Cash flow from operating activities	\$ 343.5	\$ 320.8	\$ 686.6	\$ 784.1
Less: Property and equipment purchases	172.5	128.0	554.0	434.0
Free cash flow	\$ 171.0	\$ 192.8	\$ 132.6	\$ 350.1

Free cash flow generation in the fourth quarter of fiscal 2011 was \$171.0 million compared to free cash flow of \$192.8 million in the fourth quarter last year. The \$21.8 million decrease in free cash flow from the fourth quarter last fiscal year was the result of a \$44.5 million increase in property and equipment purchases, partially offset by a \$22.7 million increase in cash flow from operations.

For the 53 weeks ended May 7, 2011, free cash flow equalled \$132.6 million, a decrease of \$217.5 million from the \$350.1 million in free cash flow recorded last year. The decline is due to an increase of \$120.0 million in property and equipment purchases and a \$97.5 million decrease in cash flow from operating activities.

Controls and Accounting Policies

Transition to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board of Canada announced that GAAP for publicly accountable enterprises will be replaced by IFRS. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which the current and comparative information will be prepared under IFRS.

Project Status

The Company is in the process of finalizing the impact of the conversion to IFRS on its financial statements. A formal project governance structure has been developed to ensure regular progress reports are provided to senior management, a structured Steering Committee, as well as the Audit Committee and Board of Directors. The Company's IFRS changeover plan is summarized below which details the Company's progress towards completion of selected key activities.

	Key Activities	Milestones/Deadlines	Progress to Date
Financial Statement Preparation	<ul style="list-style-type: none"> Identify differences in Canadian GAAP/IFRS accounting policies. Evaluate and select IFRS policies & IFRS 1 choices. Develop financial statement format and disclosure. Quantify effects of changeover in initial IFRS 1 disclosures and fiscal 2011 financial statements. 	<ul style="list-style-type: none"> Steering Committee and Audit Committee approval for all key IFRS accounting policy choices to occur during fiscal 2010. Draft skeleton IFRS annual and interim financial statements by the end of fiscal 2010. Final quantification of conversion effects on fiscal 2011 comparative period by fiscal 2012. 	<ul style="list-style-type: none"> Completed diagnostic impact assessment during fiscal 2009, which involved a high level review of major differences between IFRS and Canadian GAAP. Completed approval of key IFRS accounting policy choices in fiscal 2010; quantification of transition opening balance sheet impacts is complete. Obtained approval of key IFRS 1 exemptions applicable to the entity in fiscal 2010; quantification of transition impact has been completed. Skeleton annual and interim IFRS financial statements have been drafted and approved.
Training and Communication	<ul style="list-style-type: none"> Educate the Board of Directors, Audit Committee, management, key employees, and other stakeholders. Communicate progress of changeover plan to internal and external stakeholders. Monitor ongoing IFRS accounting standards developments. 	<ul style="list-style-type: none"> Ongoing training provided to all groups to align with changeover. Additional training will occur as needed during the changeover year. Communicate project status updates regularly until completion of IFRS implementation. 	<ul style="list-style-type: none"> Completed training for general awareness of IFRS to broad group of finance employees, Steering Committee, Board of Directors, and Audit Committee. Completed IFRS Implementation training for finance personnel across the organization on key impacts of transition for the Company, changes in

	Key Activities	Milestones/Deadlines	Progress to Date
Training and Communication (continued)		<ul style="list-style-type: none"> Ongoing monitoring of future developments of standards and interpretations to occur until completion of IFRS implementation. 	<p>accounting policy and dual reporting year requirements.</p> <ul style="list-style-type: none"> Frequent project status communications have been provided to internal and external stakeholders. Frequent attendance by key personnel at relevant seminars, participation in industry peer groups and utilization of key technical resources. Ongoing monitoring of future developments of standards and interpretations through review of the International Accounting Standards Board ("IASB") work plan and current projects.
Information Systems	<ul style="list-style-type: none"> Determine if business processes require change to be IFRS compliant. Determine if software requires upgrades, changes, or additions to support IFRS reporting requirements. 	<ul style="list-style-type: none"> IT implementation approach to be completed in fiscal 2010. Changes to systems and dual record-keeping process to be completed at the beginning of fiscal 2011. Preparation of quarterly financial information during fiscal 2011 to produce comparative information required in the Company's fiscal 2012 IFRS financial statements. 	<ul style="list-style-type: none"> Assessment of business processes is underway in conjunction with work on accounting policies. Completed IT implementation plan in fiscal 2010 to address new information requirements under IFRS particularly related to a significant increase in note disclosures. Changes to information systems required to prepare the opening balance sheet and gather appropriate information for dual reporting for fiscal 2011 have been completed. Quarterly financial information for the fiscal 2011 comparative year is being completed.

	Key Activities	Milestones/Deadlines	Progress to Date
Contractual Arrangements and Compensation	<ul style="list-style-type: none"> Assess the affect of IFRS on: <ul style="list-style-type: none"> Financial covenants Compensation arrangements Budgeting and planning Make any required changes to plans and arrangements. 	<ul style="list-style-type: none"> Complete necessary covenant negotiations during fiscal 2011. Complete review of compensation arrangements during fiscal 2011. Complete budgeting plan during fiscal 2011. 	<ul style="list-style-type: none"> IFRS adjustments have been assessed in the analysis of contractual arrangements and compensation. Additionally, key performance indicators ("KPI") and budgeting IFRS project groups have been formed to assess transition impacts. Budgets have been updated for anticipated IFRS impacts.
Control Environment	<ul style="list-style-type: none"> Assess, design, and implement internal controls over financial reporting ("ICFR") for all accounting policy changes. Assess, design, and implement disclosure controls and procedures ("DC&P") for all identified accounting policy changes. 	<ul style="list-style-type: none"> Changes to ICFR and DC&P completed during fiscal 2011. Test and evaluate revised controls throughout fiscal 2011. Update Chief Executive Officer/Chief Financial Officer certification process by the end of fiscal 2011. 	<ul style="list-style-type: none"> Analysis of control issues is underway in conjunction with the review of IFRS accounting issues and policies. There have been no material adjustments to the internal control processes in place around financial reporting and disclosures as a result of the transition to IFRS and none anticipated. MD&A disclosures have been regularly reviewed and updated with changes in the project status. IFRS Communications Committee, which includes Investor Relations, has been assembled and is engaged.

The Company continues to assess the impact of IFRS on the Company's budgeting process by utilizing working groups designated to analyzing the impact of changes in accounting policy. The drafting of revised Company accounting policies to reflect the changes in accounting standards is also underway. The Company continues to educate staff in all areas of the business on decisions made as a result of the IFRS transition.

Significant Changes in Accounting Policies

The Company has assessed the effect of the adoption of IFRS and the resulting changes in accounting policies. All significant accounting policy changes that have been identified are detailed within this fiscal 2011 annual MD&A. The Company continues to review all of the proposed and ongoing projects of the IASB to determine their impact on the Company.

At this time, the Company has finalized the quantitative impacts of the opening balance sheet transitional adjustments, and is assessing the impacts on the results of the four quarters of fiscal 2011. The Company has been working to quantify IFRS results throughout the changeover year.

The information below is provided as a progress update to the 2010 annual MD&A for the users of the financial statements relating to the possible effects of the IFRS changeover. The changes identified below should not be regarded as a complete list of changes that will result from the transition to IFRS. The update is intended to highlight areas where the Company has concluded on certain items where the impact is expected to be material to the users of the financial statements. Readers are cautioned, however, that the information is unaudited and is subject to change.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Investment Property	<ul style="list-style-type: none"> Investment property is a new concept under IFRS that does not exist under Canadian GAAP. Investment properties are defined as properties that are held to earn rental income and/or held for capital appreciation. Investment properties are separately recorded and disclosed under IFRS, while they are recorded with property and equipment under Canadian GAAP. 	<ul style="list-style-type: none"> Opening balance sheet: Investment properties have been identified as at the date of transition to IFRS and they will be separately recorded and disclosed from property and equipment in the opening IFRS balance sheet. The accounting policy change will result in a reclassification of \$97.9 million on the opening balance sheet. The Company has opted to utilize the cost model for measuring investment properties. When utilizing the cost model, the Company must disclose the aggregated fair value of all investment properties. The Company has engaged property appraisers to assist in determining the fair value for investment properties which, as at the opening balance date, approximates \$125 million. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: Potential changes to the classification of properties can result in further reclassification adjustments between property and equipment and investment property. Statement of total comprehensive income: No impact expected subsequent to transition date. Depreciation for investment property will continue at the same rates as property and equipment, as there is no difference in the policy from Canadian GAAP to IFRS.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Impairment of Long-Lived Assets	<ul style="list-style-type: none"> • IAS 36, "Impairment of Assets" requires a company to record an impairment loss when an asset is carried at more than its recoverable amount through use or sale. IAS 36, unlike Canadian GAAP, allows a company to reverse these impairment losses if there is a change in the factors used to calculate the assets' recoverable amount. • If it is not possible to estimate the recoverable amount of an individual asset, IFRS tests asset groups for impairment at the independent cash-generating unit ("CGU") level based on generation of cash inflows. Under Canadian GAAP, asset groups are defined based on net cash flows. • IFRS requires a single-step impairment test for long-lived assets based on discounted cash flows. Under Canadian GAAP, a two-step approach is used which first compares undiscounted cash flows to the carrying amount and only measures an impairment based on fair value if the undiscounted cash flow is less than its carrying value. 	<ul style="list-style-type: none"> • Grouping of assets for impairment purposes will be at a lower level than under Canadian GAAP. The Company has determined the CGU to be principally at an individual store or theatre level. • The change in level of impairment testing has resulted in an increase in the write down of assets under IFRS where the carrying value of assets under Canadian GAAP was previously supported by a higher, aggregated level of testing. The write down and potential subsequent recovery of impairment loss could lead to income statement and earnings volatility in future periods. • Opening balance sheet: Impairment testing for CGUs where an indicator of impairment exists has been conducted as at the Company's transition date. As a result of the impairment testing performed at the transition date, there is anticipated to be a decrease of \$92.1 million to property and equipment, a decrease to intangible assets of \$4.8 million, a decrease of \$2.0 million in other liabilities and a decrease of \$68.4 million to retained earnings, net of taxes. • Impact subsequent to the transition date: <ul style="list-style-type: none"> – Balance sheet: Subsequent IFRS adjustments for impairment could result in further impairment. The resulting impact of future impairments would result in a decrease to the net book value of the long lived asset or an increase if impairments are reversed. The Company is currently in the process of finalizing impairment testing for the comparative year. – Statement of total comprehensive income: Assets impaired under IFRS will require an adjustment to add back depreciation recognized under Canadian GAAP. The resulting impact would decrease cost of sales or selling and administrative expense. Also, any further impairment recognized under IFRS would result in an adjustment to increase selling and administrative expense.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Impairment of Long-Lived Assets (continued)	<ul style="list-style-type: none"> IFRS has guidelines surrounding the highest asset group that goodwill and indefinite life intangible assets can be allocated to for impairment testing purposes that may differ from Canadian GAAP for certain entities. 	<ul style="list-style-type: none"> Opening balance sheet: No impact. Goodwill impairment testing under IFRS for the Company will be tested at a lower level than under Canadian GAAP. Goodwill from previous acquisitions has been allocated to respective asset groups for impairment testing purposes based on the expected benefit from the synergies at the date of the transaction. Impact subsequent to the transition date: Goodwill arising from future business acquisitions will be allocated to the asset groups based on the synergies expected from the transaction.
	<ul style="list-style-type: none"> Under IFRS, previously recognized impairment losses must be considered for reversal when a change in circumstances indicates impairment has been reduced for long-lived assets other than goodwill or indefinite life intangible assets. Reversals of impairment are prohibited under Canadian GAAP. 	<ul style="list-style-type: none"> Opening balance sheet: Nothing significant has been identified. No impact. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: No significant impact is expected in the comparative quarters. Reversal of previous impairments will require an adjustment increasing the asset's net book value. Statement of total comprehensive income: Reversal of previous impairments will require an adjustment increasing selling and administrative expense.
Leases	<ul style="list-style-type: none"> IFRS does not provide the same quantitative guidelines as Canadian GAAP, but rather has additional qualitative considerations for classification of leases between 'operating' and 'finance' ('capital' under Canadian GAAP) leases. 	<ul style="list-style-type: none"> Opening balance sheet: The qualitative considerations for the classification of leases were reviewed as at the transition date and no change in classifications have been identified. There are no changes anticipated to the statement of total comprehensive income.
	<ul style="list-style-type: none"> IFRS has different recognition principles surrounding sale leaseback transactions where the lease is classified as an 'operating' lease and the transaction occurs at fair market value. 	<ul style="list-style-type: none"> Opening balance sheet: Certain gains from historical sale leaseback transactions have been identified and will be fully recognized in the opening IFRS balance sheet. The expected adjustment will result in a decrease to other liabilities of \$8.2 million and an increase to retained earnings of \$6.6 million, net of tax. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: Any gains under Canadian GAAP that would otherwise be amortized relating to the sale leaseback transactions occurring at fair value will be recognized immediately, therefore reducing other liabilities.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Leases (continued)		<ul style="list-style-type: none"> – Statement of total comprehensive income: The gains under Canadian GAAP that would otherwise be amortized relating to the sale leaseback transactions will be recognized in other income immediately. • The Company currently is working to quantify the quarterly impact of these adjustments.
	<ul style="list-style-type: none"> • Under Canadian GAAP, operating leases of the Company that were sub-leased to a third party or non-VIE franchisee were not required to be recognized on a straight-line basis over the terms of the relevant leases. The rationale for not applying this methodology was that expenses and length of the lease were matched to the sub-lease income and term. Under IFRS, specific guidance exists for similar transactions and due to the legal requirement to pay and receive amounts separately and not settle simultaneously, these transactions must be recorded separately. 	<ul style="list-style-type: none"> • Opening balance sheet: The transactions identified under Canadian GAAP will have an adjustment to record the transactions separately under IFRS. The resulting impact is anticipated to be an increase to other assets of \$7.9 million, an increase to other liabilities of \$10.9 million and a decrease of retained earnings of \$2.2 million, net of tax. • Impact subsequent to the transition date: <ul style="list-style-type: none"> – Balance sheet: If any further sub-lease arrangements are entered into a separate asset and liability must be recognized to reflect the lease asset to receive rental payments and lease obligation to make rental payments associated with the transaction. As a result this impact would have an adjustment to both other assets and other liabilities. – Statement of total comprehensive income: The resulting sub-lease revenue and lease expense would be recognized in the income statement which would result in little to no increase or decrease to selling and administrative expense as these amounts offset one another. – The Company is currently assessing the impact of this adjustment for the comparative quarters.
Employee Benefits	<ul style="list-style-type: none"> • IFRS requires vested past service costs of defined benefit pension plans to be expensed immediately and unvested past service costs to be recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, all past service costs are generally amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment, or a shorter period. 	<ul style="list-style-type: none"> • Opening balance sheet: There will be a one-time adjustment to recognize any vested past service costs at the date of transition to IFRS. The Company engaged actuaries to calculate this adjustment. The impact is an increase to other liabilities of \$0.2 million and a total decrease to retained earnings of \$0.1 million, net of tax. • Impact subsequent to the transition date: <ul style="list-style-type: none"> – Balance sheet: Subsequent to the transition date the Company will adjust its estimated employee future benefit obligation to take into effect the impact of the vested past service costs under IFRS. The adjustment

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Employee Benefits (continued)	<ul style="list-style-type: none"> IFRS requires an entity to make an accounting policy choice regarding the recognition of actuarial gains and losses. The three options that are available are as follows: <ul style="list-style-type: none"> deferred recognition using a “corridor” approach; immediate recognition through the statement of income; or immediate recognition through other comprehensive income. The Company has chosen to recognize actuarial gains and losses immediately through other comprehensive income. This policy was not available to the Company under Canadian GAAP. Previously the Company delayed recognition of actuarial gains and losses by utilizing a “corridor” approach. IFRS calculates the asset ceiling limit for defined benefit plans in a different manner from the method required under Canadian GAAP and also requires the recognition of onerous obligation where a defined benefit plan has minimum funding requirements. 	<p>will potentially impact the employee future benefit obligation as well as other liabilities.</p> <ul style="list-style-type: none"> Statement of total comprehensive income: Subsequent to the transition date the Company will adjust its estimated pension expense to take into effect the impact of the vested past service costs under IFRS. The adjustment is anticipated to reduce selling and administrative expense. Adjustments are currently being quantified for the comparative quarters. Opening balance sheet: An adjustment to retained earnings will be booked as a result of the Company opting to utilize an IFRS 1 exemption to recognize all unamortized actuarial gains and losses through retained earnings upon transition to IFRS. The Company has engaged actuaries to calculate this transitional adjustment. The adjustment is a decrease to other assets of \$60.4 million, an increase to employee future benefits obligations of \$8.1 million, an increase to other liabilities of \$16.1 million and a total decrease to retained earnings of \$63.4 million, net of tax. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: Subsequent to the transition date the Company will adjust its estimated employee future benefit obligation to take into effect the impact of the actuarial gains and losses recognized under IFRS. The adjustment will impact employee future benefit obligation as well as other liabilities. Statement of total comprehensive income: Subsequent to the transition date the Company will adjust its estimated pension expense to take into account the impact of the actuarial gains and losses recognized upon transition to IFRS. The adjustment will impact selling and administrative expense. Adjustments are currently being quantified for the comparative quarters. Opening balance sheet: The Company has engaged actuaries to calculate this transitional adjustment and the impact is an increase to other liabilities of \$6.4 million and a decrease to retained earnings of \$4.8 million, net of tax.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Provisions	<ul style="list-style-type: none"> IFRS uses different terminology than Canadian GAAP and provides more extensive guidance on recognition of provisions defined as liabilities with uncertain timing and/or amount, including the following: <ul style="list-style-type: none"> provisions are recognized when it is probable (more likely than not) that an outflow of resources will be required to settle the obligation, while a higher threshold is used under Canadian GAAP; provisions will be separately classified from other liabilities (current and non-current) on the face of the balance sheet and subject to additional disclosure requirements; provisions are recognized if either a legal obligation or constructive obligation exists, while only legal obligation is considered under Canadian GAAP; a provision must be recognized if a contract becomes onerous where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it; and provisions are discounted when impact is material. 	<ul style="list-style-type: none"> Opening balance sheet: The Company has recorded liabilities of uncertain timing and/or amount and for which it is probable that an outflow of resources will be required to settle the obligation as provisions under IFRS. Also, with the creation of the provision line item, reclassification of certain amounts currently recorded in accounts payable was required in the opening balance sheet. The resulting impact will be an increase to receivables of \$0.8 million, a decrease to property and equipment of \$0.4 million, a decrease to trade and other payables of \$35.7 million, an increase to current provisions of \$28.6 million, a decrease to current loans and borrowings of \$0.2 million, an increase of non-current provisions of \$19.7 million, a decrease to non-current loans and borrowings of \$2.3 million, a decrease in other liabilities of \$1.7 million and a total decrease to retained earnings of \$5.6 million, net of tax. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: The reclassification of provisions will affect various accounts, many listed above in the opening balance sheet impact. Statement of total comprehensive income: The recognition and reclassification of provisions will result in recognition of additional expenses. Adjustments are currently being quantified for the comparative quarters.
Customer Loyalty Programs	<ul style="list-style-type: none"> IFRS requires deferred revenue recognition approach for customer loyalty programs with fair value of the award credits to be recognized as a separate component of the sales transaction. Under Canadian GAAP an entity can use a deferred revenue approach or account for the program as an expense. The Company uses the latter approach under Canadian GAAP. 	<ul style="list-style-type: none"> Opening balance sheet: There will be a one-time adjustment related to the deferral of revenue recognized under Canadian GAAP. As a result, there will be a decrease in other assets of \$0.4 million, an increase in trade and other payables of \$1.5 million, and a total decrease in retained earnings of \$1.4 million, net of tax. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: Subsequent to the transition date the adjustments will be minimal. Statement of total comprehensive income: Under IFRS, deferred revenue recognition requires the Company to defer revenue for customer loyalty programs. The resulting impact to the statement of total comprehensive income will result in adjustments to sales, cost of sales and selling and administrative expenses with minimal affect on operating income. The Company is currently finalizing these adjustments.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Consolidation – Special Purpose Entities (“SPEs”)	<ul style="list-style-type: none"> IFRS uses a more principles-based control model for consolidation of SPEs. Entities are to be consolidated if the Company has the majority of the risks and rewards of ownership over the subject entity. The control factors considered include: <ul style="list-style-type: none"> – a majority share ownership; – ability to control the Board; – power to govern financial and operating policies; and – contracted arrangements conferring effective control. Under Canadian GAAP, VIEs are consolidated based on their equity investment at risk and their financial dependence on Sobeys to operate. 	<ul style="list-style-type: none"> The control factors under IFRS for consolidation were considered as at the transition date to IFRS specifically related to consolidation of certain franchises. There was no change in the total number of VIEs upon transition to IFRS. There is no difference in consolidated entities throughout the comparative year. No significant difference between Canadian GAAP and IFRS.
Borrowing Costs	<ul style="list-style-type: none"> Under Canadian GAAP, borrowing costs may be capitalized or expensed on major capital projects. Under IFRS, all assets that require an extended period of preparation before it is ready for its intended use or sale (“qualifying assets”) must have all related borrowing costs capitalized with the asset. 	<ul style="list-style-type: none"> The Company historically has capitalized borrowing costs on qualifying assets as part of capital projects. As a result there is no impact on the opening balance sheet or subsequent to the transition date.
Property and Equipment	<ul style="list-style-type: none"> IFRS allows the measurement of fixed assets using a cost model or a revaluation model. Canadian GAAP only permits the use of a cost model. The Company has selected to continue using the cost model approach under IFRS. IFRS requires separate amortization of major components of an asset. Under Canadian GAAP this requirement exists, however is less explicit. 	<ul style="list-style-type: none"> Opening balance sheet: No impact on the opening balance on transition to IFRS. Impact subsequent to the transition date: No significant impact is expected because the Company has selected the same measurement model under IFRS as is utilized under Canadian GAAP. Opening balance sheet: No impact for the opening balance on transition to IFRS. The Company has already componentized its assets under Canadian GAAP, therefore no change is required. Impact subsequent to the transition date: No adjustment is expected. Assets will be reviewed to identify separate components at each reporting date.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Joint Ventures/ Equity Accounting	<ul style="list-style-type: none"> IAS 31, "Interests in Joint Ventures" allows an entity to account for jointly controlled operations using proportionate consolidation or the equity method. The IASB issued IFRS 11, "Joint Arrangements" which requires joint arrangements to be accounted for using the equity method. The standard will be effective for the Company's fiscal 2014 year-end. Under Canadian GAAP these types of investments are accounted for using proportionate consolidation. 	<ul style="list-style-type: none"> Opening balance sheet: Certain of the Company's real estate investments that were previously accounted for using the proportionate consolidation method will be accounted for using the equity method under IFRS. As a result of this change, the opening balance sheet impact will be a decrease to cash and cash equivalents, inventories, prepaid expenses, loans and other receivables, property and equipment, trade and other payables, and loans and borrowings. Other minor adjustments were made to ensure all previously equity accounted entities are in line with IFRS reporting requirements. This change will result in an increase of \$94.0 million to investments at equity, and a reduction to retained earnings of \$1.5 million. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: The change in approach from proportional consolidation to equity accounting will affect various accounts including those listed above, with the net change being reflected in Investments, at equity. Statement of total comprehensive income: The change from proportional consolidation to equity accounting will impact various lines including sales on the Company's statement of comprehensive income with the recognition of pre-tax earnings from the entity being reported as share of earnings from equity accounted investments. There will be no impact to net earnings other than relatively minor adjustments resulting from the transitional adjustment required for previously equity accounted entities.
Investment in Crombie REIT – Recognition of Gains	<ul style="list-style-type: none"> IFRS allows for the recognition of gains on the sales to associates equal to the percentage interest of an equity accounted investment held by external investors at the time of sale. This impacts Empire's investment in Crombie REIT. Previously, under Canadian GAAP the gains on sales to Crombie REIT were not included in net earnings. Rather the gains were deferred and reduced the carrying value of the Company's equity investment in Crombie REIT. Included in these values is the appropriate portion of the gains recognized under the sale leaseback provisions under 	<ul style="list-style-type: none"> Opening balance sheet: There will be an adjustment related to recognition of the portion of previously deferred gains on sale of assets to Crombie REIT equal to the percentage interest held by external investors at the time of each sale. As a result, there will be an increase in Investments, at equity of approximately \$73.6 million and an increase, net of tax, of \$63.6 million to retained earnings. Impact subsequent to the transition date: <ul style="list-style-type: none"> Balance sheet: Subsequent to the transition date, the Company will adjust its investment in Crombie REIT to reflect gains recognition as permitted under IFRS for sales

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
	IFRS. The portion of gains related to sales to Crombie REIT equal to the ownership interest of the Company continues to be deferred and reduces the carrying value of the Company's investment.	<p>transactions as they occur, resulting in increases in the carrying value of the Company's investment for the fiscal 2011 comparable year. Going forward, the Company's investment in Crombie REIT will be reduced for only the portion of gains equal to its ownership interest.</p> <p>– Statement of total comprehensive income: Subsequent to the transition date, the Company will be recognizing the permitted portion of gains on sales to Crombie REIT in Other Income, resulting in an increase in earnings.</p>

First Time Adoption of IFRS

IFRS 1, "First-time Adoption of International Financial Reporting Standards" provides guidance for an entity's initial year of IFRS adoption. The Company must apply this standard in fiscal 2012. IFRS 1 generally requires retrospective application of all IFRS at the reporting date, with the exception of limited optional exemptions and certain mandatory exceptions that are detailed in the standard. The most significant optional IFRS 1 exemptions that the Company has applied in its opening IFRS balance sheet are summarized as follows:

Fair Value as Deemed Cost – IFRS 1, "Election" – The Company has elected to report certain items of property and equipment, investment property, and/or intangible assets in its opening IFRS balance sheet, at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis, and the Company has completed the evaluation of the individual assets for which the election will apply.

Based on the assessments and results from property valuers, the resulting opening balance sheet IFRS 1 election adjustment is a total write-down of \$45.2 million. The resulting impact reduces investment properties and property and equipment by \$7.3 million and \$37.9 million, respectively, and decreases retained earnings by \$35.4 million, net of tax.

Business Combinations – The Company has elected to apply IFRS 3, "Business Combinations", prospectively from the date of transition to IFRS. IFRS 3 will only be applied to business combinations that occur after the date of transition, however specific requirements must be met for historical business combinations, such as: maintaining the classification of the acquirer and the acquiree, recognizing or derecognizing certain acquired assets or liabilities as required under IFRS and re-measuring certain assets and liabilities at fair value. There is no expected impact to the Company's opening IFRS balance sheet as a result of this election.

Employee Benefits – The Company has elected to recognize all cumulative actuarial gains and losses through retained earnings at the date of transition to IFRS. Actuarial gains and losses would have to be recalculated under IFRS from the inception of each of the Company's defined benefit plans if the exemption was not taken. This election must be applied to all defined benefit plans consistently. The quantified amount of this adjustment was disclosed above within the employee benefits section of the significant changes in accounting policies.

Decommissioning Liabilities – The Company has elected to apply the requirements detailed under International Financial Reporting Interpretations Committee ("IFRIC") 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities", for liabilities prospectively from the date of transition to IFRS. The resulting change of rates for estimating the future obligation under IFRS resulted in an insignificant adjustment to retained earnings, provisions and the asset, under property and equipment.

Deemed Cost Exemption – Under Canadian GAAP, the Company has historically accounted for exploration and development costs of oil and gas properties in a single Canada wide full cost accounting pool. Under IFRS, exploration expenditures are reclassified as exploration and evaluation assets. IFRS 1 contains an exemption that allows the Company to measure oil and gas assets at the date of transition as follows: i) exploration and evaluation assets are reclassified from the full cost pool to exploration and

evaluation assets at the amount that was recorded under Canadian GAAP; and, ii) the remaining full cost pool is allocated to the development and production assets and components pro rata using reserve values or reserve volumes. The Company does not have any exploration and evaluation assets and has only identified one CGU.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include inventories, carrying value of commercial properties, goodwill, employee future benefits, stock based compensation, valuation of ABCP, customer loyalty programs and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

Pension, Post-Retirement and Post-Employment Benefits

Certain estimates and assumptions are used in actuarially determining the Company's defined pension and employee future benefits obligation.

Significant assumptions used to calculate the pension and employee future benefits obligation are the discount rate, the expected long-term rate of return on plan assets and expected growth rate of health care costs. These assumptions depend on various underlying factors such as economic conditions, investment performance, employee demographics and mortality rates. These assumptions may change in the future and may result in material changes in the pension and employee benefit plans expense. The magnitude of any immediate impact, however, is mitigated by the fact that net actuarial gains and losses in excess of ten percent of the greater of the accrued benefit plan obligation and the market value of the benefit plan assets are amortized on a straight-line basis over the average remaining service period of the active employees. Changes in financial market returns and interest rates could also result in changes in funding requirements for the Company's defined benefit pension plans.

The discount rate is based on current market interest rates assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation. The appropriate discount rates are determined on April 30th every year. For fiscal 2011, the discount rate used for calculation of pension and other benefit plan expense was 5.25 percent and 5.25 percent, respectively (2010 – 5.50 percent and 5.75 percent, respectively). The expected long-term rate of return on plan assets for pension benefit plans for fiscal 2011 was 7.0 percent (2010 – 7.0 percent). The expected growth rate in health care costs was 9.0 percent for fiscal 2011 and fiscal 2010 and is expected to reduce by 0.5 percent per annum to an ultimate rate of 5.0 percent in fiscal 2019. The expected future growth rate is evaluated on an annual basis.

The table below outlines the sensitivity of the fiscal 2011 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 the impact on the accrued benefit obligation or benefit plan expenses.

(\$ in millions)	Pension Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost ⁽¹⁾	Benefit Obligations	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.3)		
Impact of: 1% decrease		\$ 2.3		
Discount rate ⁽²⁾	5.25%	5.25%	5.25%	5.75%
Impact of: 1% increase	\$ (28.8)	\$ 0.5	\$ (15.9)	\$ (0.2)
Impact of: 1% decrease	\$ 32.3	\$ (0.8)	\$ 17.1	\$ 0.2
Growth rate of health care costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 17.1	\$ 2.0
Impact of: 1% decrease			\$ (14.7)	\$ (1.6)

(1) Reflects the impact on the current service cost, the interest cost and the expected return on assets.

(2) 5.00 percent for the Senior Management Plan and Oshawa SERP and Post Retirement Benefits, and 4.25 percent for Post-employment Plan.

(3) Gradually decreasing (0.5 percent per year) to 5.00 percent in 2019 and remaining at that level thereafter.

Goodwill and Long-Lived Assets

Goodwill is not amortized and is assessed for impairment at the reporting unit level. This is done annually at a minimum. Any potential goodwill impairment is identified by comparing the estimated fair value of a reporting unit to its carrying value. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its estimated fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimated fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company periodically assesses the recoverability of long-lived assets when there are indications of potential impairment. In performing these analyses, the Company considers such factors as current results, trends and future prospects, current market value and other economic factors.

A substantial change in estimated undiscounted future cash flows for these assets could materially change their estimated fair values, possibly resulting in additional impairment. Changes which may impact future cash flows include, but are not limited to, competition and general economic conditions and unrecoverable increases in operating costs.

Income Taxes

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

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

Valuation of Inventories

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

Inventory shrinkage, which is calculated as a percentage of the related inventory, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, inventories, operating income and consolidated earnings may be impacted.

Controls and Procedures

Management of Empire, which includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining DC&P to provide reasonable assurance that material information relating to Empire is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As at May 7, 2011, the CEO and CFO have evaluated the effectiveness of Empire's DC&P. Based on that evaluation, the CEO and CFO have concluded that Empire's DC&P was effective as at May 7, 2011, and that there were no material weaknesses relating to the design or operation of the DC&P.

Management of Empire, which includes the CEO and CFO, is responsible for establishing and maintaining ICFR, as that term is defined in National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission. As at May 7, 2011, the CEO and CFO have evaluated the effectiveness of Empire's ICFR. Based on that evaluation, the CEO and the CFO have concluded that Empire's ICFR was effective as at May 7, 2011, and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in Empire's ICFR during the period beginning on January 30, 2011 and ended on May 7, 2011 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

Related-Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company pursuant to a management cost sharing agreement dated March 23, 2006, between a subsidiary of Crombie REIT and ECL. The rental payments are at exchange amounts which represent the amount negotiated between the parties as part of the lease agreement. The charges incurred for administrative and management services are on a cost recovery basis (billed at the cost incurred by the invoicing party). For the 53 weeks ended May 7, 2011, the aggregate rental payments to Crombie REIT were \$61.7 million (52 weeks ended May 1, 2010 – \$57.3 million). For the 53 weeks ended May 7, 2011, charges incurred for administrative and management services were \$1.9 million (52 weeks ended May 1, 2010 – \$2.1 million). The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$5.9 million related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL.

During fiscal 2011, the Company sold twelve (2010 – eight) commercial properties to Crombie REIT for net cash proceeds of \$104.0 million (2010 – \$56.7 million), which was fair market value. Since the sales were to an equity accounted investment, the gains were not included in earnings; rather the gains reduced the carrying value of the Company's equity investment in Crombie REIT.

On August 4, 2010, Crombie REIT closed a bought-deal public offering of units at a price of \$11.05 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for approximately \$20.5 million of Class B Units (which are convertible on a one-for-one basis into Units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.4 percent to 47.0 percent. Crombie REIT issued additional units as Series A and Series B convertible debentures were converted to units. This conversion further reduced Empire's interest in Crombie REIT to 46.4 percent (40.4 percent on a fully diluted basis).

On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of \$7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for approximately \$30.0 million of Class B Units.

On September 30, 2009, the Company purchased \$10.0 million of Series B convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering of a total of \$85.0 million. The Debentures have a maturity date of June 30, 2015. The Debentures have a coupon of 6.25 percent per annum and each \$1,000 principal amount of Debenture is convertible into approximately 90.9091 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$11.00 per unit. The Debentures have been classified as available-for-sale and are included in investments, at realizable value.

The Company has provided Crombie REIT with fixed rate second mortgages in the amount of \$5.7 million (2010 – \$5.9 million). The second mortgages have a weighted average interest rate of 5.38 percent with a maturity date of March 2014. For the 53 weeks ended May 7, 2011, Empire received interest income related to the second mortgages of \$0.3 million (52 weeks ended May 1, 2010 – \$0.3 million).

On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT), the Company's interest in Crombie REIT would be approximately 40.4 percent.

Subsequent Events

Subsequent to year end, the Company sold two properties to Crombie REIT for net proceeds of \$27.6 million, which was fair market value. Also, the Company sold its 50 percent interest in two properties to a third party for \$14.6 million. As part of these transactions, first mortgage loans totalling \$12.7 million were paid in full.

Employee Future Benefit Obligations

For the 53 weeks ended May 7, 2011, the Company contributed \$6.1 million (2010 – \$6.0 million) to its registered defined benefit plans. The Company expects to contribute approximately \$6.2 million in fiscal 2012 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

Designation for Eligible Dividends

“Eligible dividends” receive favorable treatment for income tax purposes. To be an eligible dividend, a dividend must be designated as such at the time of payment.

Empire has, in accordance with the administrative position of the CRA, included the appropriate language on its website to designate the dividends paid by Empire as eligible dividends unless otherwise designated.

Contingencies

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 tax authorities.

On June 21, 2005 Sobeys received a notice of reassessment from CRA for fiscal years 1999 and 2000 related to Lumsden Brothers Limited (“Lumsden”), 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 Lumsden was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the reassessment amounts to \$13.6 million. Lumsden 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. Accordingly, Sobeys has not recorded in its statements of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover 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, which the Company is involved with, 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.

Risk Management

Through its operating companies and its equity-accounted investments, Empire is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Company has operating and risk management strategies and insurance programs to help minimize these operating risks.

Empire has adopted an annual enterprise risk management assessment which is overseen by the Company's senior management and reported to the Board of Directors and Committees of the Board. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Empire.

Competition

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

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry through regionally managed operations. The most significant risk to Sobeys is the potential for reduced sales and profit margins as a result of increased competition. To mitigate this risk, Sobeys' strategy is to be geographically diversified with the benefits of national scale and regional management deployment, to be customer and market-driven, to be focused on superior execution, and to have efficient, cost effective operations. Sobeys reduces its exposure to competitive or economic pressures in any one region of the country by operating in each region of Canada through a network of corporate, franchised, and affiliated stores, and through servicing the needs of thousands of independent, wholesale accounts. Sobeys approaches the market with five distinct formats to meet anticipated needs of its customers in order to enhance profitability by region and by target market.

Empire's commercial real estate operations, through Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect our real estate group's ability to: (i) acquire a prospective property in compliance with our investment criteria; (ii) lease space in its properties, and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect sales and cash flows. To mitigate these risks, Crombie REIT maintains strategic relationships with developers to ensure an adequate supply of prospective attractive properties. In addition, Crombie REIT maintains strategic relationships with existing and potential tenants to help ensure high occupancy levels are maintained at each of its properties.

Continued growth of rental income is dependent on renewing expiring leases and finding new tenants to fill vacancies at market rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. To mitigate this risk, Crombie REIT and Empire utilize staggered lease maturities to ensure that there are not unusually large amount of leasable space coming up for renewal in any given year.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar holds land for future development, it faces significant competition when looking to acquire new land for future development. To mitigate this risk, Genstar maintains a geographically diverse inventory of well located land for development to alleviate periods of intense competition for acquisition of new land. In addition, Genstar management has intimate knowledge of the residential markets where Genstar operates and in markets where they seek new land investments.

Financial

Empire and its operating companies have adopted a number of key financial policies to manage financial risk. Risks can also arise from changes in the rules or standards governing accounting or financial reporting. The Company employs numerous professionally accredited accountants throughout its finance group.

In the ordinary course of managing its debt, the Company utilizes financial instruments from time to time to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes. The majority of the Company's debt is at fixed rates; accordingly, there is a limited exposure to interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial obligations as they come due. The Company actively maintains committed credit facilities to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company monitors capital markets and the related economic conditions. 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.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 11 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Insurance

Empire and its subsidiaries are self-insured on a limited basis with respect to certain operational risks and also purchase excess insurance coverage from financially stable third-party insurance companies. In addition to maintaining comprehensive loss prevention programs, the Company maintains management programs to mitigate the financial impact of operational risks.

Human Resources

Empire is exposed to the risk of labour disruption in its operating companies. Labour disruptions pose a moderate operational risk, as Sobeys operates an integrated network of 24 distribution centres across the country for the food retailing division. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2012. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long-term.

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

There is always a risk associated with the loss of key personnel. Succession plans have been identified for key roles including the depth of management talent throughout the Company and its subsidiaries which is reviewed annually by the Human Resources Committee.

Business Continuity

The Company is subject to unexpected events and natural hazards which could cause sudden or complete cessation of its day to day operations. One such unexpected and natural hazard is the risk of a pandemic. Sobeys has worked with industry and government sources to develop a pandemic preparedness plan. Responsibility for business continuity planning has been designated to the Human Resources Committee of Empire's Board of Directors.

Environmental, Health and Safety

The Company is continually enhancing its programs in areas of environmental, health and safety and is in compliance with relevant legislation. Employee awareness and training programs are conducted and environmental, health and safety risks are reviewed on a regular basis.

Any environmental site remediation is completed using appropriate, qualified internal and external resources and health and safety issues are proactively dealt with. The Board of Directors receives regular reports which review outstanding matters, identify new legislation and outline new programs being implemented across the Company to positively impact the environment and employee health and safety. Existing environmental protection regulatory requirements are not expected to have a material financial or operational effect on the capital expenditures, earnings or competitive position of the Company during the current fiscal year or in future years.

Occupational Health and Safety

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

Each operating business conducts an ongoing, comprehensive environmental monitoring process and the Company is unaware of any material environmental liabilities in any of its operating companies. Empire's Board of Directors receives quarterly reports that review any outstanding issues including plans to resolve them.

Food Safety and Security

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

A large majority of Sobeys' sales are generated from food products and Sobeys could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect financial performance. Procedures are in place to manage food crises, should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, Sobeys has food safety procedures and programs, which address safe food handling and preparation standards. Sobeys employs best practices for the storage and distribution of its food products.

Technology

The Company and each of its operating companies are committed to improving their respective operating systems, tools and procedures in order to become more efficient and effective. The implementation of major information technology projects carries with it various risks, including the risk of realization of benefits, that must be mitigated by disciplined change management and governance processes. Sobeys has a business process optimization team staffed with knowledgeable internal and external resources that is responsible for implementing the various initiatives. The Company's Board of Directors have also created an Oversight Committee to ensure appropriate governance of these change initiatives is in place and this committee receives regular reports from the Company's management.

Real Estate

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

Legal, Taxation and Accounting

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

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

Operations

The success of Empire is closely tied to the performance of Sobeys' network of retail stores. Franchise affiliates operate approximately 53 percent of Sobeys' retail stores. Sobeys relies on the franchise affiliates and corporate store management to successfully execute retail strategies and programs.

To maintain controls over Sobeys' brands and the quality and range of products and services offered at its stores, each franchisee agrees to purchase merchandise from Sobeys. In addition, each store agrees to comply with the policies, marketing plans and operating standards prescribed by Sobeys. These obligations are specified under franchise agreements which expire at various times for individual franchisees. As well, Sobeys maintains head lease control or has long-term buying agreements to control the vast majority of its retail locations.

Supply Chain

Sobeys is exposed to potential supply chain disruptions that could result in shortages of merchandise in its retail store network. Sobeys mitigates this risk through effective supplier selection and procurement practices along with a reliance on the efficient maintenance and evolution of its supply and logistics chain to sustain and meet growth objectives.

Seasonality

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

Product Costs

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

Utility and Fuel Prices

The Company is a significant consumer of electricity, other utilities and fuel. Unanticipated cost increases in these items could negatively affect the Company's financial performance. The Company has various consumption and procurement programs in place to minimize utility risk.

Foreign Operations

Sobeys and Genstar have certain foreign operations. Sobeys' foreign operations are limited to a small number of produce brokerage operations based in the United States. Genstar's foreign operations are limited to a number of residential land developments in selected markets. These foreign operations are relatively small and are not considered material to Empire on a consolidated basis; as such, the Company does not have any material risks associated with foreign operations.

Foreign Currency

The Company conducts the majority of its operating business in Canadian dollars and its foreign exchange risk is limited to currency fluctuations between the Canadian dollar, the Euro, and the U.S. dollar. U.S. dollar purchases of product by the food division represent approximately three percent of Sobeys' total annual purchases with Euro purchases limited to specific contracts for capital expenditures. Sobeys has processes in place to use forward contracts with high quality counter-parties to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars.

Ethical Business Conduct

Any failure of the Company to adhere to its policies, the law or ethical business practices could significantly affect its reputation and brands and could therefore negatively impact the Company's financial performance. The Company's framework for managing ethical business conduct includes the adoption of a Code of Business Conduct and Ethics which directors and employees of the Company are required to acknowledge and agree to on a regular basis and, as part of an independent audit and security function, maintenance of a whistle-blowing hotline.

Information Management

The integrity, reliability and security of information in all its forms are critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches and/or inappropriate disclosure or leaks of sensitive information.

Information management is identified as a risk in its own right, separate from the technology risk. The Company recognizes that information is a critical enterprise asset. Currently, the information management risk is being managed at the regional and national levels through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management. With a view to enhancing and standardizing the controls to manage the information management risk, the Company is developing corporate operating policies which establish minimum standards for the usage, security and appropriate destruction of information. Furthermore, enterprise metrics are being identified to assist in monitoring significant information management risks.

Capital Allocation

The risk associated with capital allocation is high for a holding company, especially due to the amount of capital invested in the operating companies. It is important to ensure the capital allocation decisions result in an appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including the Board review of capital allocation decisions. The Company has established prudent hurdle rates for capital investments that are evaluated through a prudent due diligence process.

Access to Capital

Access to capital risk refers to Empire being unable to obtain required capital at reasonable terms, given the prevailing market conditions. There are several factors that impact the level of inherent risk: the state of the capital markets, the level of capital required, the credit rating assigned by the rating agencies and the availability of credit from the banks. Empire mitigates these risks by maintaining strong relationships with its banks and access to the capital markets.

Economic Environment

Management believes that economic conditions have shown some improvement over the past two fiscal years; however, management continues to closely monitor economic conditions, including interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

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

Dated: June 30, 2011
Stellarton, Nova Scotia, Canada

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 Canadian generally accepted accounting principles and reflect management's best estimates and judgements. 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.



Paul D. Sobey
President and
Chief Executive Officer
June 30, 2011



Paul V. Beesley
Executive Vice President and
Chief Financial Officer
June 30, 2011

Independent Auditors' Report

To the Shareholders of Empire Company Limited

We have audited the accompanying consolidated financial statements of Empire Company Limited, which comprise the consolidated balance sheets as at May 7, 2011 and May 1, 2010, and the consolidated statements of retained earnings, comprehensive income, earnings and cash flows for the 53 and 52 week fiscal years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' 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 consolidated financial position of Empire Company Limited as at May 7, 2011 and May 1, 2010, and the results of its operations and its cash flows for the 53 and 52 week fiscal years then ended in accordance with Canadian generally accepted accounting principles.

The logo for Grant Thornton LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Accountants

New Glasgow, Canada

June 30, 2011

Consolidated Balance Sheets

(\$ in millions)	May 7, 2011	May 1, 2010
Assets		
Current		
Cash and cash equivalents	\$ 616.9	\$ 401.0
Receivables	346.6	336.9
Income taxes receivable	0.3	–
Inventories (Note 4)	906.1	880.3
Prepaid expenses	75.2	70.1
Loans and other receivables (Note 6)	81.7	105.8
	2,026.8	1,794.1
Investments at realizable value	14.3	10.9
Investments, at equity (realizable value \$436.9; 2010 – \$476.8) (Note 5)	26.8	56.8
Loans and other receivables (Note 6)	68.8	79.2
Other assets (Note 7)	107.1	94.5
Property and equipment (Note 8)	2,620.1	2,548.7
Assets held for sale	59.4	36.5
Intangibles (Note 9)	453.7	455.0
Goodwill	1,178.4	1,172.6
	\$ 6,555.4	\$ 6,248.3
Liabilities		
Current		
Bank indebtedness (Note 10)	\$ 8.1	\$ 17.8
Accounts payable and accrued liabilities	1,689.0	1,621.6
Income taxes payable	–	19.5
Long-term debt due within one year (Note 11)	49.7	379.4
Liabilities relating to assets held for sale	12.7	–
Future tax liabilities (Note 18)	46.6	50.9
	1,806.1	2,089.2
Long-term debt (Note 11)	1,095.4	829.0
Other long-term liabilities (Note 12)	143.2	130.6
Future tax liabilities (Note 18)	95.9	86.4
Employee future benefits obligation (Note 25)	130.0	125.1
Minority interest	35.8	35.6
	3,306.4	3,295.9
Shareholders' equity		
Capital stock (Note 13)	320.5	325.1
Contributed surplus	4.7	3.2
Retained earnings	2,944.2	2,652.2
Accumulated other comprehensive loss (Note 14)	(20.4)	(28.1)
	3,249.0	2,952.4
	\$ 6,555.4	\$ 6,248.3

Guarantees, commitments and contingent liabilities (Note 23)

Subsequent events (Note 30)

Approved on behalf of the Board


Director


Director

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

Year ended (\$ in millions)	May 7, 2011 (53 Weeks)	May 1, 2010 (52 Weeks)
Balance, beginning of year as previously reported	\$ 2,652.2	\$ 2,405.8
Implementation of new accounting standards <i>(Note 1)</i>	–	(4.7)
Balance, beginning of year as restated	2,652.2	2,401.1
Net earnings	369.5	301.9
Dividends		
Preferred shares	(0.1)	(0.1)
Common shares	(54.4)	(50.7)
Premium on common shares purchased for cancellation <i>(Note 13)</i>	(23.0)	–
Balance, end of year	\$ 2,944.2	\$ 2,652.2

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Year ended (\$ in millions)	May 7, 2011 (53 Weeks)	May 1, 2010 (52 Weeks)
Net earnings	\$ 369.5	\$ 301.9
Other comprehensive income		
Unrealized gains on available-for-sale financial assets, net of income taxes of \$0.2 (2010 – \$0.2)	1.0	0.8
Reclassification of loss on available-for-sale financial assets to earnings, net of income taxes of \$nil	–	0.2
Unrealized gains on derivatives designated as cash flow hedges to earnings, net of income taxes of \$0.1 (2010 – \$4.1)	0.3	7.6
Reclassification of loss on derivative instruments designated as cash flow hedges to earnings, net of income taxes of \$2.6 (2010 – \$2.9)	5.5	6.4
Share of comprehensive income of entities accounted for using the equity method, net of income taxes of \$0.8 (2010 – \$4.0)	2.5	7.6
Foreign currency translation adjustment	(1.6)	(2.2)
	7.7	20.4
Comprehensive income	\$ 377.2	\$ 322.3

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Earnings

Year ended (\$ in millions except per share amounts)	May 7, 2011 (53 Weeks)	May 1, 2010 (52 Weeks)
Sales	\$ 16,029.2	\$ 15,516.2
Operating expenses		
Cost of sales, selling and administrative expenses	15,199.5	14,728.2
Depreciation and amortization	362.1	339.7
	467.6	448.3
Investment income (Note 16)	29.8	31.4
Operating income	497.4	479.7
Interest expense		
Long-term debt	68.0	67.9
Short-term debt	3.3	4.6
	71.3	72.5
	426.1	407.2
Capital gains (losses) and other items (Note 17)	61.3	(0.6)
Earnings before income taxes and minority interest	487.4	406.6
Income taxes (Note 18)		
Current	106.1	109.2
Future	2.8	(10.1)
	108.9	99.1
Earnings before minority interest	378.5	307.5
Minority interest	9.0	5.6
Net earnings	\$ 369.5	\$ 301.9
Earnings per share (Note 3)		
Basic	\$ 5.43	\$ 4.41
Diluted	\$ 5.42	\$ 4.40
Weighted average number of common shares outstanding, in millions		
Basic	68.0	68.4
Diluted	68.2	68.5

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended (\$ in millions)	May 7, 2011 (53 Weeks)	May 1, 2010 (52 Weeks)
Operating activities		
Net earnings	\$ 369.5	\$ 301.9
Items not affecting cash (Note 19)	308.8	358.0
Preferred dividends	(0.1)	(0.1)
	678.2	659.8
Net change in non-cash working capital	8.4	124.3
Cash flows from operating activities	686.6	784.1
Investing activities		
Net increase in investments	(38.4)	(50.5)
Net proceeds from sale of Wajax (Note 2)	121.3	–
Purchase of property and equipment	(554.0)	(434.0)
Proceeds on disposal of property and equipment	176.7	137.1
Additions to intangibles	(34.3)	(34.7)
Loans and other receivables	34.5	(44.1)
Increase in other assets	(4.5)	(5.9)
Business acquisitions (Note 26)	(17.0)	(34.0)
Cash flows used in investing activities	(315.7)	(466.1)
Financing activities		
Decrease in bank indebtedness	(9.7)	(28.1)
Issue of long-term debt	218.3	97.7
Repayment of long-term debt	(272.7)	(158.6)
Decrease in minority interest	(8.8)	(8.9)
Repurchase of preferred shares (Note 13)	(0.1)	–
Repurchase of Non-Voting Class A shares (Note 13)	(27.6)	–
Common dividends	(54.4)	(50.7)
Cash flows used in financing activities	(155.0)	(148.6)
Increase in cash and cash equivalents	215.9	169.4
Cash and cash equivalents, beginning of year	401.0	231.6
Cash and cash equivalents, end of year	\$ 616.9	\$ 401.0

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

May 7, 2011 (\$ in millions, except per share amounts)

1 Summary of Significant Accounting Policies

Basis of Consolidation

Empire Company Limited (the "Company") is a diversified Canadian company whose key businesses include food retailing, real estate and corporate investment activities. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), and include the accounts of the Company, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys") and certain enterprises considered variable interest entities ("VIEs") 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 are accounted for using the equity method. Investments in significant joint ventures are consolidated on a proportionate basis.

The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

Changes in Accounting Policies

Adopted During Fiscal 2010

Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of adopting Section 3064, Emerging Issues Committee ("EIC") Abstract 27, "Revenues and Expenditures During the Pre-Operating Period", no longer applies. The Company implemented these requirements, in compliance with transitional provisions, effective for the first quarter of fiscal 2010 retrospectively with restatement of the comparative periods. The initial impact under the new standard as at May 3, 2009 was a decrease to prepaid expenses of \$6.9, a decrease to other assets of \$62.4, a decrease in property and equipment of \$33.7, an increase to intangibles of \$96.1, a decrease of future tax liabilities of \$2.2 as well as a reduction of retained earnings of \$4.7. For the year ended May 2, 2009, cost of sales, selling and administrative expenses decreased \$9.4, depreciation and amortization expense increased \$11.3 and income taxes decreased \$0.7.

Financial instruments – disclosures

In June 2009, the CICA issued amendments to the existing Section 3862, "Financial Instruments – Disclosures", to more closely align the Section with those required under International Financial Reporting Standards ("IFRS"). The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks. These amendments apply for annual financial statements with fiscal years ending after September 30, 2009. The Company implemented these enhanced disclosure requirements in compliance with transitional provisions. The new disclosures did not have a material impact.

Future Changes in Accounting Policies

International financial reporting standards

On February 13, 2008, the Accounting Standards Board of Canada announced that GAAP for publicly accountable enterprises will be replaced by IFRS. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with retrospective adoption and restatement of the comparative fiscal year ended May 7, 2011. Accordingly, the conversion from GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which the current and comparative information will be prepared under IFRS.

The Company, with the assistance of its external advisors, launched an internal initiative to govern the conversion process and has been evaluating the impact of the conversion to IFRS on its financial statements. The transition of IFRS impacts accounting, financial reporting, internal control over financial reporting, information systems and business processes.

The Company has been transitioning to IFRS under a formal project governance structure, and has been providing regular progress reports to senior management and the audit committee. The Company has also completed a diagnostic impact assessment, which involved a review of the major differences between current GAAP and IFRS, as well as establishing an implementation guideline. In accordance with this guideline, the Company established a staff training program and has completed an analysis of the key decision areas, including analyzing the appropriate accounting policy selections from available IFRS options, and making recommendations on same.

The Company continues to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the International Accounting Standards Board to determine their impact on the Company.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash, treasury bills and guaranteed investments with a maturity less than 90 days at date of acquisition.

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 a 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 estimated to not 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 (see Note 4).

Real estate inventory of residential properties are carried at the lower of cost or net realizable value. Estimated net realizable value is based upon the net sales proceeds anticipated in the normal course of business, less estimated costs to complete or improve the property to the condition used in determining the estimated selling price. Capitalized costs include the cost of land and the cost of services, such as roads, sewerage and water systems on land under development, carrying and other costs, net of any rental income. Carrying costs include an allocation of interest on debt and property taxes, but do not include any allocation of administrative overhead. Interest cost generally is not allocated to raw land holdings until development commences. The cost of land is generally pro-rated to each phase of a project on an acreage basis. Cost of land sold, including development costs, is allocated within each phase to saleable lots in proportion to anticipated revenues.

Long-Lived Assets

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the book value of the assets may not be recoverable, as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. Impaired assets are recorded at the lower of carrying and fair value, determined principally using discounted future cash flows expected from their use and eventual disposition, with the impairment loss charged to cost of sales, selling and administrative expenses.

Property and Equipment

Property and equipment is recorded at net book value, being original cost less accumulated depreciation and any writedowns for impairment.

Depreciation on real estate buildings is calculated using the straight-line method with reference to each property's book value, its estimated useful life (not exceeding 40 years) and its residual value. Deferred leasing costs are amortized over the terms of the related leases.

Depreciation of other property and equipment is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment, fixtures and vehicles	3 – 20 years
Buildings	10 – 40 years
Leasehold improvements	Lesser of lease term and 7 – 20 years

Assets to be disposed are classified as held for sale and are no longer depreciated. Assets held for sale are recognized at the lower of book value and fair value less cost of disposal.

The Company follows the full cost method of accounting for its exploration and development of petroleum and natural gas reserves. Costs initially capitalized are depleted and depreciated using the unit-of-production method based on production volumes, before royalties, in relation to the Company's share of estimated proved petroleum and natural gas reserves.

Capitalization of Costs

(a) Construction projects

Certain subsidiary companies capitalize interest during the construction period until the project opening date. The amount of interest capitalized to construction in progress in the current year was \$1.3 (2010 – \$0.6).

(b) Development properties and land held for future development

Interest, real estate taxes and other expenses are expensed, with the exception of property taxes which are capitalized during the construction period. Capitalization of all costs ceases when the development property is substantially complete and ready for productive use, at which time the properties are classified as commercial properties. No amounts were capitalized in fiscal 2011 (\$nil in fiscal 2010).

Deferred Charges

Deferred store marketing costs, primarily comprised of major store renovation and expansion costs, are included with equipment, fixtures and vehicles as part of the Company's property and equipment balance sheet group.

Leases

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income. If the lease contains a term that allows ownership to pass to the Company, or there is a bargain purchase option, the capitalized value is depreciated over the estimated useful life of the related asset. Otherwise, the capitalized value is depreciated on a straight-line basis over the lesser of the lease term and its estimated useful life. Capital lease obligations are included in the long-term debt of the Company and are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases.

Lease allowances and incentives are recorded as other long-term liabilities and amortized as a reduction of lease expense over the term of the lease. Real estate lease expense is amortized straight-line over the entire term of the lease including free rent periods related to store fixturing. A store fixturing period varies by store but is generally considered to be one month prior to the store opening.

Assets Held For Sale

Certain land and buildings have been listed for sale and reclassified as "Assets held for sale" in accordance with CICA Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations". These assets are expected to be sold within a twelve-month period and are no longer productive assets with no interest to develop them for future use. Assets held for sale are valued at the lower of book value and fair value less cost of disposal. Liabilities assumed upon sale of assets or debts to be repaid as part of a sale transaction are also classified as "Liabilities relating to assets held for sale".

Intangibles

Intangibles arise on the purchase of a new business, existing franchises, software and the acquisition of pharmacy prescription files. Amortization is recorded on limited life intangibles on a straight-line basis over the estimated useful life of the intangible as follows:

Brand names	10 years
Deferred purchase agreements	5 – 10 years
Franchise rights/agreements	10 years
Lease rights	5 – 10 years
Patient files	15 years
Software	3 – 7 years
Other	5 – 10 years

Goodwill and Intangibles with Indefinite Useful Lives

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.

Goodwill and intangible assets with indefinite useful lives are not amortized but rather are subject to an annual impairment review or more frequently if circumstances exist that might indicate its value is impaired. Should the carrying value exceed the fair value of goodwill or intangible assets (e.g. trademarks), the carrying value will be written down to the fair value.

Financial Instruments

The Company is required to recognize and measure 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 cost or 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 purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

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

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

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

Guarantees

Obligations undertaken through issuance of a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline ("AcG") 14, "Disclosure Guarantees", are recognized at fair value at inception with no subsequent re-measurement at fair value required unless the financial guarantee qualifies as a derivative.

Hedges

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange rates, variable interest rates 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. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. 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 relating to the hedge is carried forward until the hedged item is recognized in net earnings. 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 is immediately reclassified to net earnings.

Financial derivatives assigned as part of a cash flow hedging relationship are classified as either an other asset or other liability as required based on their fair market value determination.

Significant derivatives include the following:

- (1) Foreign currency forward contracts 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 until the variability in cash flows being hedged is recognized in earnings in future accounting periods.
- (2) Electricity contracts to manage the cost of electricity designated as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated other comprehensive income is reclassified into other income/expense when the product containing the hedged item impacts earnings.
- (3) Interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's debt portfolio. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates.

Customer Loyalty Programs

A Club Sobeys loyalty card program (the "Program") was launched during fiscal 2009. The Program allows members to earn points on their purchases in certain Sobeys stores. As well, a Club Sobeys credit card entitles the customer to earn points for their purchases on the credit card. Members can redeem these points, in accordance with the Program rewards schedule, for discounts on future grocery purchases, purchase products or services or elect to convert the points into Aeroplan miles which is a loyalty program run by a third party. When points are earned by Program members, the Company records an expense in its consolidated statements of earnings and establishes a liability for future redemptions by multiplying the number of points issued by the estimated cost per point. The Program liability is included in accounts payable and accrued liabilities on the Company's consolidated balance sheets. The actual cost of Program redemptions is charged against the liability account. During fiscal 2010, a loyalty card program, Club Thrifty Foods, was launched. It follows a similar point earning and redemption structure as the Club Sobeys loyalty card program.

Customer Loyalty Programs (continued)

The estimated cost per point is determined based on many factors, primarily related to the expected future redemption patterns and associated costs. The Company monitors, on an ongoing basis, trends in redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed and adjusts the estimated cost per point based upon expected future activity. Any difference in the cost per point is recognized in cost of sales, selling and administrative expenses in the Company's consolidated statements of earnings. To the extent that estimates differ from actual experience, the Program expense could be higher or lower. The Company continues to evaluate and revise certain assumptions used to calculate the Program liability, based on redemption experience and expected future activity.

An AIR MILES® reward program is also used by the Company. AIR MILES® are earned by certain Sobeys customers based on purchases in stores. The Company pays a per point fee under the terms of the agreement with AIR MILES®. The cost of this program is expensed as incurred as cost of sales, selling and administrative expenses in the consolidated statements of earnings.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes, under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future tax assets are recognized to the extent that it is more likely than not that they will be recovered. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment.

Deferred Revenue

Deferred revenue consists of long-term supplier purchase agreements, rental revenue arising from the sale of subsidiaries and gains on sale leaseback transactions. Deferred revenue is being taken into income on a straight-line basis over the term of the related agreements and is included in other long-term liabilities.

Foreign Currency Translation

Assets and liabilities of self-sustaining foreign investments are translated at exchange rates in effect at the balance sheet date. The revenues and expenses are translated at average exchange rates for the year. Cumulative gains and losses on translation are shown in accumulated other comprehensive income.

Other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each period end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating earnings. Sales and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the period.

Revenue Recognition

Food sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company and consolidated VIEs, and revenue from sales to non-VIE franchised stores, affiliated stores and independent accounts. Revenue received from non-VIE 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.

Revenue from the sale of residential lots and development properties is recognized in the period in which the transaction occurs, provided the earnings process is completed and the collection of the proceeds is reasonably assured. As required under GAAP, any gains on sale of properties to Crombie REIT, which is accounted for using the equity method, are not included in net earnings. Gains are applied to reduce the carrying value of the Company's equity investment in Crombie REIT. Commercial real estate revenue is recognized in accordance with the lease agreements with tenants on a straight-line basis.

Pension Benefit Plans and Other Benefit Plans

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

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

The impact of changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARS") of active members. For pension benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARS of the active members. For the Company's Supplemental Executive Retirement Plan ("SERP"), the impact of changes in the plan provisions are amortized over five years.

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, selling and administrative expenses and related inventories in accordance with EIC 144, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor". Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. As of the year ended May 7, 2011, the Company has recognized \$4.7 (2010 – \$4.8) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

Use of Estimates

The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgements by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation, valuation of asset-backed commercial paper, loyalty programs and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

Earnings per Share

Earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is determined based on the treasury stock method which assumes that all outstanding stock options with an exercise price below the average market price are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

2 Sale of Wajax Income Fund

On October 5, 2010, the Company sold its 27.5% ownership interest in Wajax Income Fund ("Wajax"). Details of the sale was as follows:

Net proceeds	\$ 121.3
Book value	34.5
Capital gain before income taxes	86.8
Income taxes	6.7
Net capital gain	\$ 80.1

3 Earnings per Share

Earnings applicable to common shares is comprised of the following:

	2011 (53 Weeks)	2010 (52 Weeks)
Operating earnings	\$ 307.8	\$ 284.5
Capital gains and other items, net of income taxes of \$(0.4) (2010 – \$(18.0))	61.7	17.4
Net earnings	369.5	301.9
Preferred share dividends	(0.1)	(0.1)
Earnings applicable to common shares	\$ 369.4	\$ 301.8

Included in income taxes of \$(18.0) for the year ended May 1, 2010 is an income tax recovery of \$17.0 (refer to Note 18).

Earnings per share is comprised of the following:

Operating earnings	\$ 4.52	\$ 4.16
Net capital gains and other items	0.91	0.25
Basic earnings per share	\$ 5.43	\$ 4.41
Operating earnings	\$ 4.51	\$ 4.15
Net capital gains and other items	0.91	0.25
Diluted earnings per share	\$ 5.42	\$ 4.40

4 Inventories

The cost of inventories recognized as an expense during the year was \$11,945.5 (2010 – \$11,616.1). The Company has recorded \$18.3 (2010 – \$12.2) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 7, 2011. There were no reversals of inventories written down previously (2010 – \$nil).

5 Investments, at Equity

	May 7, 2011	May 1, 2010
Wajax	\$ –	\$ 30.8
Crombie REIT (46.4% interest)	(6.3)	8.4
U.S. residential real estate partnerships	33.1	17.6
	\$ 26.8	\$ 56.8

The Company's carrying value of its investment in Wajax was as follows:

	May 7, 2011	May 1, 2010
Balance, beginning of year	\$ 30.8	\$ 31.0
Equity earnings	8.7	9.2
Share of comprehensive loss	0.9	(0.2)
Distributions received	(5.9)	(9.2)
Sale of interest in Wajax	(34.5)	–
Balance, end of year	\$ –	\$ 30.8

5 Investments, at Equity (continued)

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

	May 7, 2011	May 1, 2010
Balance, beginning of year	\$ 8.4	\$ (19.7)
Equity earnings		
Continuing operations	18.7	18.6
Other expenses	–	(4.7)
Share of comprehensive income	2.7	11.8
Distributions received	(26.7)	(24.9)
Deferral of gains on sale of property	(33.1)	(2.7)
Interest acquired in Crombie REIT	20.5	30.0
Dilution gain	3.2	–
Balance, end of year	\$ (6.3)	\$ 8.4

On August 4, 2010, Crombie REIT closed a bought-deal public offering of units at a price of \$11.05 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$20.5 of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). During the year, conversion of Crombie REIT debentures also resulted in the issuance of additional Crombie REIT units. Consequently the Company's interest in Crombie REIT was reduced from 47.4% to 46.4%.

6 Loans and Other Receivables

	May 7, 2011	May 1, 2010
Loans and mortgages receivable	\$ 109.2	\$ 110.5
Notes receivable and other	41.3	74.5
	150.5	185.0
Less amount due within one year	81.7	105.8
	\$ 68.8	\$ 79.2

Loans and Mortgages Receivable

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

7 Other Assets

	May 7, 2011	May 1, 2010
Accrued benefit asset (Note 25)	\$ 61.2	\$ 60.4
Asset-backed commercial paper	22.8	21.2
Restricted cash	17.1	10.6
Other	6.0	2.3
	\$ 107.1	\$ 94.5

8 Property and Equipment

	May 7, 2011		
	Cost	Accumulated Depreciation	Net Book Value
Food segment			
Land	\$ 235.6	\$ –	\$ 235.6
Land held for development	149.5	–	149.5
Buildings	959.7	275.7	684.0
Equipment, fixtures and vehicles	2,071.4	1,194.3	877.1
Leasehold improvements	494.3	247.8	246.5
Construction in progress	186.9	–	186.9
Assets under capital leases	121.8	77.3	44.5
	4,219.2	1,795.1	2,424.1
Real estate and other segments			
Land	5.2	–	5.2
Land held for development	10.5	–	10.5
Buildings	51.1	22.1	29.0
Equipment	91.4	53.7	37.7
Leasehold improvements	90.7	29.1	61.6
Construction in progress	6.6	–	6.6
Petroleum and natural gas costs	87.5	42.1	45.4
	343.0	147.0	196.0
Total	\$ 4,562.2	\$ 1,942.1	\$ 2,620.1

	May 1, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Food segment			
Land	\$ 263.4	\$ –	\$ 263.4
Land held for development	60.8	–	60.8
Buildings	959.9	260.0	699.9
Equipment, fixtures and vehicles	2,304.6	1,463.8	840.8
Leasehold improvements	530.5	312.0	218.5
Construction in progress	91.0	–	91.0
Assets under capital leases	119.0	65.1	53.9
	4,329.2	2,100.9	2,228.3
Real estate and other segments			
Land	6.5	–	6.5
Land held for development	57.6	–	57.6
Buildings	73.7	27.9	45.8
Equipment	84.7	47.3	37.4
Leasehold improvements	78.7	24.2	54.5
Construction in progress	69.5	–	69.5
Petroleum and natural gas costs	84.6	35.5	49.1
	455.3	134.9	320.4
Total	\$ 4,784.5	\$ 2,235.8	\$ 2,548.7

9 Intangibles

	May 7, 2011		
	Cost	Accumulated Amortization	Net Book Value
Brand names	\$ 201.0	\$ 11.2	\$ 189.8
Deferred purchase agreements	62.1	19.6	42.5
Franchise rights/agreements	58.1	22.8	35.3
Lease rights	49.1	19.8	29.3
Loyalty programs	11.4	–	11.4
Patient files	32.3	10.1	22.2
Private labels	59.5	–	59.5
Software	105.2	53.6	51.6
Other	29.6	17.5	12.1
	\$ 608.3	\$ 154.6	\$ 453.7

	May 1, 2010		
	Cost	Accumulated Amortization	Net Book Value
Brand names	\$ 201.0	\$ 8.2	\$ 192.8
Deferred purchase agreements	56.4	18.4	38.0
Franchise rights/agreements	57.9	18.6	39.3
Lease rights	45.0	18.9	26.1
Loyalty programs	11.4	–	11.4
Patient files	33.1	8.3	24.8
Private labels	59.5	–	59.5
Software	125.9	74.9	51.0
Other	26.6	14.5	12.1
	\$ 616.8	\$ 161.8	\$ 455.0

Included in intangibles as at May 7, 2011 and May 1, 2010 are the following amounts with indefinite useful lives: Brand names – \$172.8; Loyalty programs \$11.4; and Private labels \$59.5.

10 Bank Indebtedness

As security for certain bank loans, the Company has provided an assignment of certain marketable securities and, in certain subsidiaries and joint ventures, general assignments of receivables and leases, first floating charge debentures on assets and the assignment of proceeds of fire insurance policies.

11 Long-Term Debt

	May 7, 2011	May 1, 2010
First mortgage loans, weighted average interest rate 9.11%, due 2011 – 2023	\$ 47.6	\$ 65.7
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	100.0	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	–
Sinking fund debentures, weighted average interest rate 9.68%, due 2011 – 2016	40.8	48.2
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	150.1	149.8
Credit facility, floating interest rate tied to bankers' acceptance rates, due June 30, 2013	118.0	294.5
Credit facility, floating interest rate tied to bankers' acceptance rates, due July 23, 2012	200.0	200.0
Unamortized transaction costs	(3.3)	(2.0)
Capital lease obligations, weighted average interest rate 5.46%, due 2011 – 2040	41.9	52.2
	1,145.1	1,208.4
Less amount due within one year	49.7	379.4
	\$ 1,095.4	\$ 829.0

First mortgage loans are secured by land, buildings and specific charges on certain assets. Capital lease obligations are secured by the related capital lease asset.

Sobeys Group Inc., an indirect subsidiary of Sobeys, has provided its debenture holders with a floating charge over all its assets, subject to permitted encumbrances, a general assignment of book debts and the assignment of proceeds of insurance policies.

Sinking fund debenture payments are required on an annual basis. The proportionate share of related debt is retired with these repayments.

On June 1, 2010, Sobeys filed a short form prospectus providing for the issuance of up to \$500.0 of unsecured medium term notes. On June 7, 2010, Sobeys issued new medium term notes of \$150.0, bearing an interest rate of 6.64 percent, maturing on June 7, 2040.

On June 4, 2010, the Company renewed its Credit Facilities which were reduced from \$650.0 to \$450.0. The unsecured revolving term credit now matures June 30, 2013. At May 7, 2011, the Credit Facilities had a balance outstanding of \$118.0 (May 1, 2010 – \$294.5). The Credit Facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers' acceptances ("BA") rate loans, Canadian prime rate loans, U.S. base rate loans or LIBOR loans), fluctuations in the underlying rates, and in the case of the BA rate loans or LIBOR loans, the margin applicable to the financial covenants.

On July 23, 2007, Sobeys established a new unsecured revolving term credit facility maturing July 23, 2012. Under the terms of the credit agreement entered into between Sobeys and a banking syndicate, a revolving term credit facility of \$300.0 was established and increased by an additional \$300.0, resulting in a current total authorized credit facility of \$600.0. At May 7, 2011, \$200.0 (May 1, 2010 – \$200.0) of this facility had been drawn down. Interest payable on this facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or LIBOR. Interest on the facility is partially hedged with a \$200.0 interest rate swap maturing on July 23, 2012. Sobeys had also issued \$35.3 in letters of credit against the facility at May 7, 2011 (\$36.8 at May 1, 2010).

On November 8, 2007, Sobeys established a revolving credit facility of \$75.0 that was unutilized at November 8, 2010. The interest rate was floating and fluctuated with changes in the bankers' acceptance rate, Canadian prime rate or LIBOR. On November 8, 2010, the facility matured and was cancelled by Sobeys.

During fiscal 2011, Sobeys increased its capital lease obligation by \$5.4 (2010 – \$7.1) with a similar increase in assets under capital leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

11 Long-Term Debt (continued)

Debt retirement payments and capital lease obligations in each of the next five fiscal years and thereafter are:

	Long-Term Debt	Capital Leases
2012	\$ 36.5	\$ 15.2
2013	216.8	10.6
2014	172.1	7.2
2015	26.7	3.4
2016	12.5	5.3
Thereafter	641.9	10.1
Total minimum lease payments		51.8
Financial expenses included in minimum lease payments		9.9
		\$ 41.9

12 Other Long-Term Liabilities

	May 7, 2011	May 1, 2010
Deferred lease obligation	\$ 75.5	\$ 66.8
Deferred revenue	13.3	13.3
Accrued benefit liability (Note 25)	26.8	25.4
Derivative liabilities	9.6	17.2
Deferred gains	4.5	1.8
Other	13.5	6.1
	\$ 143.2	\$ 130.6

13 Capital Stock

			No. of Shares
Authorized			
Preferred shares, par value of \$25 each, issuable in series.			
Series 2 cumulative, redeemable, rate of 75% of prime.			2,679,000
2002 Preferred shares, par value of \$25 each, issuable in series.			992,000,000
Non-voting Class A shares, without par value.			258,593,856
Class B common shares, without par value, voting.			40,800,000
	No. of Shares	May 7, 2011	May 1, 2010
Issued and outstanding:			
Preferred shares, Series 2	164,900	\$ 4.1	\$ 4.2
Non-Voting Class A	33,687,747	311.7	316.2
Class B common	34,260,763	7.6	7.6
		323.4	328.0
Employees' share purchase plan		(2.9)	(2.9)
		\$ 320.5	\$ 325.1

13 Capital Stock (continued)

The Series 2 preferred shares are redeemable at par. During the year, the Company purchased for cancellation 3,100 Series 2 preferred shares for \$0.1.

During the year, under a normal course issuer bid, the Company purchased for cancellation 513,579 Non-Voting Class A shares. The purchase price was \$27.6 of which \$23.0 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During the year, 18,102 options were exercised and the Company issued 3,828 Non-Voting Class A shares pursuant to the cashless exercise clause of the stock option plan. Capital stock increased by \$0.1.

Loans receivable from officers and employees of \$2.9 (2010 – \$2.9) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity. Loan repayments will result in a corresponding increase in share capital. The loans are non-interest bearing and non-recourse, secured by 101,510 (2010 – 101,510) Non-Voting Class A shares. The market value of the shares at May 7, 2011 was \$5.5 (May 1, 2010 – \$5.4).

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.

14 Accumulated Other Comprehensive Loss

The following table provides further detail regarding the composition of accumulated other comprehensive loss:

	May 7, 2011	May 1, 2010
Balance, beginning of year	\$ (28.1)	\$ (48.5)
Other comprehensive income for the year	7.7	20.4
Balance, end of year	\$ (20.4)	\$ (28.1)

An estimated net loss of \$6.4 recorded in accumulated other comprehensive loss related to the cash flow hedges as at May 7, 2011 (May 1, 2010 – \$6.0), is expected to be reclassified to net earnings during the next 12 months. Remaining amounts will be reclassified to net earnings over periods up to seven years.

15 Capital Management

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

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.

15 Capital Management (continued)

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

	May 7, 2011	May 1, 2010
Bank indebtedness	\$ 8.1	\$ 17.8
Long-term debt due within one year	49.7	379.4
Liabilities relating to assets held for sale	12.7	–
Long-term debt	1,095.4	829.0
Funded debt	1,165.9	1,226.2
Less cash and cash equivalents	(616.9)	(401.0)
Net funded debt	549.0	825.2
Shareholders' equity	3,249.0	2,952.4
Capital under management	\$ 3,798.0	\$ 3,777.6

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 of new, relocated and expanded stores, including related leasehold improvements and features 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 real estate 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. This cash flow is supplemented, when necessary, through the borrowing of additional debt or the issuance of additional capital stock.

Management monitors certain key ratios to effectively manage capital:

	May 7, 2011	May 1, 2010
Funded debt to total capital ⁽¹⁾	26.4%	29.3%
Funded debt to EBITDA ⁽²⁾	1.4x	1.5x
EBITDA to interest expense	12.1x	11.3x

(1) Total capital is funded debt plus shareholders' equity.

(2) EBITDA and interest expense are comprised of EBITDA and interest expense for the 53 or 52 week periods then ended. EBITDA (operating income plus depreciation and amortization) is a non-GAAP financial measure. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

As part of existing debt agreements, two financial covenants are monitored and communicated, as required by the terms of credit agreements, 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 (for previous 53 or 52 weeks); and (ii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (all amounts are based on previous 53 or 52 weeks).

The Company was in compliance with these covenants as at May 7, 2011.

16 Investment Income

	2011 (53 Weeks)	2010 (52 Weeks)
Dividend and interest income	\$ 1.0	\$ 3.3
Share of earnings of entities accounted using the equity method	28.8	28.1
	\$ 29.8	\$ 31.4

17 Capital Gains (Losses) and Other Items

	2011 (53 Weeks)	2010 (52 Weeks)
Gain on sale of Wajax (Note 2)	\$ 86.8	\$ –
Donation of Wajax units	(6.0)	–
Store and distribution centre closure costs	(21.5)	–
Reduction of book value of real estate assets	(2.7)	–
Gain (loss) on disposal of assets	3.2	(0.2)
Change in fair value of Canadian third-party asset-backed commercial paper	1.6	3.4
Foreign exchange (losses) gains	(0.1)	0.9
Equity share of Crombie REIT's other expenses	–	(4.7)
	\$ 61.3	\$ (0.6)

During the year, Sobeys recorded \$16.1 in pre-tax costs associated with the Price Chopper banner in Ontario due to pending store closures and \$5.4 in pre-tax severance costs related to the future closure of the Brantford, Ontario distribution centre. Also the Company recorded an impairment charge of \$2.7 to reduce the carrying value of one commercial property to estimated fair value, reflecting the changing market condition of that particular property.

18 Income Taxes

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

	2011 (53 Weeks)	2010 (52 Weeks)
Income tax expense according to combined statutory rate of 28.7% (2010 – 30.1%)	\$ 139.9	\$ 122.4
Adjustment to income taxes resulting from:		
Non-deductible amounts	1.2	1.1
Capital items	(21.1)	(1.0)
Impact of statutory income tax rate changes	(1.5)	(4.7)
Non-taxable amounts	(2.9)	–
Other	(6.7)	(1.7)
Hannaford tax settlement	–	(17.0)
Total income taxes, combined effective tax rate of 22.3% (2010 – 24.4%)	\$ 108.9	\$ 99.1

18 Income Taxes (continued)

During fiscal 2010, the Company and Canada Revenue Agency ("CRA") concluded negotiations and settled the matter with respect to the tax treatment of gains realized on the sale of shares of Hannaford Bros Co in fiscal 2001. Income tax expense was reduced by \$17.0 as a result of that settlement.

May 7, 2011 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 103.2	\$ 6.1	\$ 109.3
Capital gains and other items	2.9	(3.3)	(0.4)
	\$ 106.1	\$ 2.8	\$ 108.9

May 1, 2010 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 123.6	\$ (6.5)	\$ 117.1
Capital gains and other items	(14.4)	(3.6)	(18.0)
	\$ 109.2	\$ (10.1)	\$ 99.1

The tax effect of temporary differences that give rise to significant portions of future tax liability are presented below:

	May 7, 2011	May 1, 2010
Investments	\$ (5.6)	\$ (3.5)
Other assets	13.9	18.2
Property and equipment	122.8	104.0
Goodwill and intangibles	37.6	36.9
Accounts payable and accrued liabilities	(21.0)	(10.8)
Long-term debt	(2.0)	(2.2)
Other long-term liabilities	(36.4)	(36.5)
Employee future benefits obligation	(34.3)	(33.7)
Other	67.5	64.9
	\$ 142.5	\$ 137.3
Current future tax liabilities	\$ 46.6	\$ 50.9
Non-current future tax liabilities	95.9	86.4
	\$ 142.5	\$ 137.3

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.

19 Supplementary Cash Flow Information

	2011 (53 Weeks)	2010 (52 Weeks)
a) Items not affecting cash		
Depreciation	\$ 324.0	\$ 307.8
Amortization of intangibles	38.1	31.9
Future tax provision	2.8	(10.1)
(Gain) loss on disposal of assets	(2.7)	2.2
Amortization of deferred items	0.2	3.3
Provision on asset-backed commercial paper	(1.6)	(3.4)
Equity in earnings of other entities, net of dividends received	3.8	10.7
Stock-based compensation	1.6	1.6
Employee future benefits obligation	4.9	6.7
Increase in deferred lease obligation	8.7	12.4
Minority interest	9.0	5.6
Business rationalization (Note 28)	4.1	(10.7)
Gain on sale of Wajax	(86.8)	–
Reduction of book value of real estate assets	2.7	–
	\$ 308.8	\$ 358.0
b) Other cash flow information		
Net interest paid	\$ 67.8	\$ 69.9
Net income taxes paid	\$ 122.8	\$ 91.6

20 Joint Ventures

The financial statements include the Company's proportionate share of the accounts of incorporated and unincorporated joint ventures. A summary of these amounts is as follows:

	May 7, 2011	May 1, 2010
Assets		
Current	\$ 129.2	\$ 137.9
Non-current	0.8	6.0
	\$ 130.0	\$ 143.9
Liabilities		
Current	\$ 25.4	\$ 30.3
Non-current	0.9	3.4
Equity and advances	103.7	110.2
	\$ 130.0	\$ 143.9

20 Joint Ventures (continued)

	2011 (53 Weeks)	2010 (52 Weeks)
Revenues	\$ 75.9	\$ 66.2
Expenses	44.0	34.9
Earnings before income taxes	\$ 31.9	\$ 31.3
Cash provided (used)		
Operating activities	\$ 32.3	\$ 18.8
Investing activities	0.8	(11.6)
Financing activities	3.9	13.2
	\$ 37.0	\$ 20.4

21 Segmented Information

Sales

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	\$ 15,761.6	\$ 15,243.0
Real estate		
Residential	72.7	63.3
Commercial	12.9	17.3
	85.6	80.6
Investment and other operations	189.0	202.2
	16,036.2	15,525.8
Elimination of inter-segment	(7.0)	(9.6)
	\$ 16,029.2	\$ 15,516.2

Operating Income

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	\$ 445.8	\$ 425.3
Real estate		
Residential	32.3	31.0
Crombie REIT	18.7	18.6
Commercial	2.6	1.2
Investment and other operations		
Wajax	8.7	9.2
Other operations, net of corporate expenses	(10.7)	(5.6)
	\$ 497.4	\$ 479.7

21 Segmented Information (continued)

Identifiable Assets

	May 7, 2011	May 1, 2010
Food retailing (excluding goodwill)	\$ 4,945.1	\$ 4,524.0
Goodwill	1,137.6	1,131.8
Food retailing	6,082.7	5,655.8
Real estate	223.8	315.5
Investment and other operations (including goodwill of \$40.8; May 1, 2010 – \$40.8)	248.9	277.0
	\$ 6,555.4	\$ 6,248.3

Inventories

	May 7, 2011	May 1, 2010
Food retailing	\$ 813.7	\$ 780.4
Real estate – residential	91.6	98.9
Other operations	0.8	1.0
	\$ 906.1	\$ 880.3

Depreciation and Amortization

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	\$ 339.0	\$ 318.3
Real estate	0.7	1.3
Investment and other operations	22.4	20.1
	\$ 362.1	\$ 339.7

Capital Expenditures

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	\$ 519.4	\$ 341.4
Real estate	10.6	68.1
Investment and other operations	24.0	24.5
	\$ 554.0	\$ 434.0

The Company operates principally in two business segments: food retailing and real estate. The food retailing segment consists of distribution of food products in Canada. The real estate segment consists of development and ownership of both commercial and residential properties. Commercial real estate is mainly land held for the development of food-anchored retail strip plazas. Residential real estate is the development of housing lots for resale. Inter-segment transactions are recorded at amounts equivalent to transactions with outside parties.

22 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 ABCP, accounts receivable, loans and other receivables, derivative contracts and guarantees.

The Company's maximum exposure to credit risk corresponds to the carrying amount for all loans and receivables, the fair market value of derivative contracts represented on the balance sheet and guarantee contracts for franchise affiliates.

The Company mitigates credit risk associated with its trade accounts receivable, loans and other 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 high. The Company regularly monitors collection performance and pledged security for all of its accounts receivable, 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 Canadian chartered banks 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 7, 2011	May 1, 2010
0 – 30 days	\$ 307.1	\$ 280.7
31 – 90 days	17.8	28.9
Greater than 90 days	34.8	47.4
Total receivables before allowance for doubtful accounts	359.7	357.0
Less: allowance for doubtful accounts	(13.1)	(20.1)
Receivables	\$ 346.6	\$ 336.9

Interest earned on past due accounts is recorded as a reduction to cost of sales, selling and administrative expenses in the statements of earnings. Loans and other receivables are all current as of May 7, 2011.

Allowance for doubtful accounts is reviewed at each balance sheet date. An allowance is taken on accounts receivable from independent accounts, as well as accounts receivable, loans and other receivables from franchise or affiliate locations, and is recorded as a reduction to its respective receivable account on the balance sheet. The Company updates its estimate of allowance for doubtful accounts based on past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchise or affiliate locations. Current and long-term accounts receivable, loans and other receivables are reviewed on a regular basis and are written-off when collection is considered unlikely. The change in allowance for doubtful accounts is recorded as cost of sales, selling and administrative expenses in the statements of earnings and is presented as follows:

	May 7, 2011	May 1, 2010
Allowance, beginning of year	\$ 20.1	\$ 31.2
Provision for losses	0.3	8.9
Recoveries	(2.9)	(7.0)
Write-offs	(4.4)	(13.0)
Allowance, end of year	\$ 13.1	\$ 20.1

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 committed credit facilities 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. 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.

22 Financial Instruments (continued)

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 7, 2011:

	2012	2013	2014	2015	2016	Thereafter	Total
Derivative financial liabilities							
Interest rate swaps payable ⁽¹⁾	\$ 10.7	\$ 2.6	\$ –	\$ –	\$ –	\$ –	\$ 13.3
Non-derivative financial liabilities							
Bank indebtedness	8.1	–	–	–	–	–	8.1
Accounts payable and accrued liabilities	1,689.0	–	–	–	–	–	1,689.0
Long-term debt	116.0	275.3	222.1	70.2	56.8	1,455.1	2,195.5
Total	\$ 1,823.8	\$ 277.9	\$ 222.1	\$ 70.2	\$ 56.8	\$ 1,455.1	\$ 3,905.9

(1) Represents the payable fixed interest (will be partially offset by the floating interest received).

Fair Value of Financial Instruments

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle the financial assets and financial liabilities as at the reporting date.

The book value of cash and cash equivalents, receivables, loans and other receivables, and accounts payable and accrued liabilities approximate fair values at the balance sheet dates.

The fair value of the variable rate long-term debt is assumed to approximate its carrying amount. The fair value of other long-term liabilities has been estimated by discounting future cash flows at a rate offered for debt of similar maturities and credit quality.

The following table summarizes the classification of the Company's financial instruments, as well as their carrying amounts and fair values:

	Held for Trading (Required)	Held for Trading (Designated)	Available- for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
May 7, 2011							
Financial assets							
Cash and cash equivalents	\$ –	\$ 616.9	\$ –	\$ –	\$ –	\$ 616.9	\$ 616.9
Receivables	–	–	–	346.6	–	346.6	346.6
Loans and other receivables	–	–	–	150.5	–	150.5	150.5
Investments	–	–	14.3	–	–	14.3	14.3
Other assets ⁽¹⁾	–	39.9	–	–	–	39.9	39.9
Total financial assets	\$ –	\$ 656.8	\$ 14.3	\$ 497.1	\$ –	\$ 1,168.2	\$ 1,168.2
Fair value level 1	\$ –	\$ 634.0	\$ 14.3				\$ 648.3
Fair value level 2	–	–	–				–
Fair value level 3	–	22.8	–				22.8
Total fair value	\$ –	\$ 656.8	\$ 14.3				\$ 671.1
Financial liabilities							
Bank indebtedness	\$ –	\$ –	\$ –	\$ –	\$ 8.1	\$ 8.1	\$ 8.1
Accounts payable and accrued liabilities	–	–	–	–	1,689.0	1,689.0	1,689.0
Long-term debt	–	–	–	–	1,157.8	1,157.8	1,173.4
Other long-term liabilities ⁽²⁾	9.6	–	–	–	–	9.6	9.6
Total financial liabilities	\$ 9.6	\$ –	\$ –	\$ –	\$ 2,854.9	\$ 2,864.5	\$ 2,880.1
Fair value level 1	\$ –	\$ –	\$ –				\$ –
Fair value level 2	9.6	–	–				9.6
Fair value level 3	–	–	–				–
Total fair value	\$ 9.6	\$ –	\$ –				\$ 9.6

(1) The total carrying value of financial assets included in other assets is \$39.9.

(2) Only the derivative liability portion is presented here.

22 Financial Instruments (continued)

May 1, 2010	Held for Trading (Required)	Held for Trading (Designated)	Available- for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
Financial assets							
Cash and cash equivalents	\$ –	\$ 401.0	\$ –	\$ –	\$ –	\$ 401.0	\$ 401.0
Receivables	–	–	–	336.9	–	336.9	336.9
Loans and other receivables	–	–	–	185.0	–	185.0	185.0
Investments	–	–	10.9	–	–	10.9	10.9
Other assets ⁽¹⁾	–	31.8	–	–	–	31.8	31.8
Total financial assets	\$ –	\$ 432.8	\$ 10.9	\$ 521.9	\$ –	\$ 965.6	\$ 965.6
Fair value level 1	\$ –	\$ 411.6	\$ 10.9				\$ 422.5
Fair value level 2	–	–	–				–
Fair value level 3	–	21.2	–				21.2
Total fair value	\$ –	\$ 432.8	\$ 10.9				\$ 443.7
Financial liabilities							
Bank indebtedness	\$ –	\$ –	\$ –	\$ –	\$ 17.8	\$ 17.8	\$ 17.8
Accounts payable and accrued liabilities	–	–	–	–	1,621.6	1,621.6	1,621.6
Long-term debt	–	–	–	–	1,208.4	1,208.4	1,231.1
Other long-term liabilities ⁽²⁾	17.2	–	–	–	–	17.2	17.2
Total financial liabilities	\$ 17.2	\$ –	\$ –	\$ –	\$ 2,847.8	\$ 2,865.0	\$ 2,887.7
Fair value level 1	\$ –	\$ –	\$ –				\$ –
Fair value level 2	17.2	–	–				17.2
Fair value level 3	–	–	–				–
Total fair value	\$ 17.2	\$ –	\$ –				\$ 17.2

(1) The total carrying value of financial assets included in other assets is \$31.8.

(2) Only the derivative liability portion is presented here.

Derivative Financial Instruments

Derivative financial instruments are recorded on the consolidated balance sheet 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 earnings 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 liabilities with the effective portion recorded in accumulated other comprehensive income.

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 majority of the Company's long-term debt is at a fixed interest rate or hedged with interest rate swaps. Bank indebtedness and approximately 11 percent (2010 – 17 percent) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the period. During the year, the Company recognized \$0.5 (2010 – \$3.8) directly into earnings as the result of ineffective hedging contracts. Accordingly, a difference of 0.25 percent in the applicable interest rate would impact net earnings by \$0.2 (2010 – \$0.3) and other comprehensive income by \$0.5 (2010 – \$0.9).

22 Financial Instruments (continued)

Foreign Currency Exchange Risk

Investments include \$2.2 Canadian that is denominated in U.S. dollars. 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 Euros and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. During the year, the Company recognized \$nil (2010 – \$nil) directly into earnings as the result of ineffective hedging contracts. The remaining contract outstanding as of May 7, 2011 expired May 10, 2011. The Company estimates that a 10 percent change in applicable foreign currency exchange rates would impact net earnings by \$6.0 (2010 – \$5.2) and other comprehensive income by \$3.3 (2010 – \$0.9).

Commodity Price Risk

Commodity price risk is the risk that the fair value of certain financial instruments or the Company's future cash flows will fluctuate as a result of changes in the market price of commodities. The Company has attempted to mitigate commodity price risk to electricity prices through the use of financial derivative swap contracts while closely monitoring other commodity prices to determine the appropriate course of action. During the year, the Company recognized \$nil (2010 – \$nil) directly into earnings as the result of ineffective hedging contracts. There were no contracts outstanding at year end. The Company estimates that a 10 percent change in applicable commodity prices would impact other comprehensive income by \$nil (2010 – \$0.1).

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 percent change in the market value of its investments that trade on a recognized stock exchange would impact other comprehensive income by \$1.2 (2010 – \$0.9).

23 Guarantees, Commitments and Contingent Liabilities

Guarantees and Commitments

At May 7, 2011, the Company was contingently liable for letters of credit issued in the aggregate amount of \$46.2 (May 1, 2010 – \$50.1).

During fiscal 2008, Sobeys entered into an additional guarantee contract. Under the terms of the guarantee should franchise affiliates be unable to fulfil their lease obligations, Sobeys would be required to fund the greater of \$7.0 or 9.9 percent (2010 – \$7.0 or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 7, 2011, the amount of the guarantee was \$7.0 (May 1, 2010 – \$7.0).

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee should franchise affiliates be unable to fulfil their lease obligations, Sobeys would be required to fund the difference of the lease commitments up to a maximum of \$70.0 on a cumulative basis. Sobeys approves each of the contracts.

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of \$4.0 or 10.0 percent (2010 – \$4.0 or 10 percent) of the authorized and outstanding obligation annually. Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favorable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of VIEs. As at May 7, 2011, the amount of the guarantee was \$4.2 (May 1, 2010 – \$4.0).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2012 is approximately \$25.6. The guaranteed lease commitments over the next five years are:

23 Guarantees, Commitments and Contingent Liabilities

	Third Parties
2012	\$ 25.6
2013	10.2
2014	3.4
2015	1.2
2016	–
Thereafter	–

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2012 is approximately \$306.3 (\$377.4 gross less expected sub-lease income of \$71.1). 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
2012	\$ 251.0	\$ 322.1	\$ 55.3	\$ 55.3
2013	235.6	303.9	54.3	54.3
2014	201.2	264.7	47.3	47.3
2015	189.9	248.8	47.0	47.0
2016	178.8	231.5	46.5	46.5
Thereafter	1,069.9	1,440.5	518.5	518.5

Upon entering into the lease of its Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance, by Serca Foodservice Inc., of all of its obligations under the lease. The remaining term of the lease is nine years with an aggregate obligation of \$28.6 (2010 – \$31.6). 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.

Contingencies

On June 21, 2005, Sobeys received a notice of reassessment from CRA for fiscal years 1999 and 2000 related to the Goods and Services Tax ("GST"). 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. 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. Accordingly, Sobeys has not recorded in its statement of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a long-term receivable from CRA pending resolution of the matter.

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

There are various claims and litigation, which the Company is involved with, 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.

24 Related-Party Transactions

Related party transactions are with Crombie REIT. The Company holds a 46.4 percent ownership interest and accounts for its investment using the equity method.

During the year, the Company sold twelve (2010 – eight) commercial properties to Crombie REIT for net proceeds of \$104.0 (2010 – \$56.7), which was fair market value. Since the sales were to an equity accounted investment, the gains were not included in earnings, rather the gains reduced the carrying value of the Company's equity investment in Crombie REIT.

24 Related-Party Transactions (continued)

The Company rents premises from Crombie REIT, at amounts in management's opinion which approximate fair market value. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third parties in each market it operates. During fiscal year 2011, the aggregate net payments under these leases, which are measured at exchange amounts, were \$61.7 (2010 – \$57.3).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. The Company has provided Crombie REIT with fixed rate second mortgages in the amount of \$5.7 (May 1, 2010 – \$5.9). The second mortgages have a weighted average interest rate of 5.38% with a maturity date of March 2014.

During fiscal 2010, the Company purchased \$10.0 of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of \$85.0. The Debentures have a maturity date of June 30, 2015. The Debentures have a coupon of 6.25% per annum and each \$1,000 principal amount of Debenture is convertible into approximately 90.9091 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of \$11.00 per unit. The Debentures have been classified as available-for-sale and are included in investments, at realizable value.

25 Employee Future Benefits

The Company has a number of defined benefit and defined contribution plans providing pension and other 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) that 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.

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. During the year, the post-retirement benefit program was modified for employees retiring after May 1, 2011. A closed group of individuals who met certain age and service criteria as of May 1, 2011 will maintain medical, drug and life insurance coverage, while those individuals who did not meet the age and service criteria will be offered critical illness coverage. The financial impact of these post-retirement benefit changes have been taken into account and the one time impact of these changes resulted in a decrease in the employee future benefits obligation of \$25.6, treated as a past service event.

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, but the employer contributions fund the balance. The employer contributions are not specified or defined within the plan text; they 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 Company uses April 30th as an actuarial valuation date and May 1st as a measurement date for accounting purposes for its defined benefit pension plans.

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plan	May 1, 2011	May 1, 2014
Senior Management Pension Plan	May 1, 2011	May 1, 2014
Other Benefit Plans	May 1, 2010	May 1, 2013

25 Employee Future Benefits (continued)

Defined Contribution Plans

The total expense and cash contributions for the Company's defined contribution plans are as follows:

2011	\$	23.7
2010	\$	20.5

Defined benefit plans

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

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Accrued benefit obligation				
Balance, beginning of year	\$ 264.7	\$ 249.8	\$ 133.7	\$ 108.5
Current service cost, net of employee contributions	2.4	1.9	3.1	3.0
Interest cost	14.0	14.9	6.8	7.0
Employee contributions	0.2	0.2	–	–
Benefits paid	(19.9)	(24.9)	(4.4)	(3.3)
Past service costs	–	1.5	(25.6)	–
Actuarial losses	7.0	21.3	8.7	18.5
Balance, end of year	\$ 268.4	\$ 264.7	\$ 122.3	\$ 133.7
	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Plan assets				
Market value, beginning of year	\$ 221.8	\$ 202.1	\$ –	\$ –
Actual return on plan assets	26.1	38.5	–	–
Employer contributions	6.1	6.0	4.4	3.3
Employee contributions	0.2	0.2	–	–
Benefits paid	(19.9)	(25.0)	(4.4)	(3.3)
Market value, end of year	\$ 234.3	\$ 221.8	\$ –	\$ –
Funded status				
Deficit	\$ (34.1)	\$ (42.9)	\$ (122.3)	\$ (133.7)
Unamortized past service cost	1.1	1.5	(24.1)	0.5
Unamortized actuarial losses	67.4	76.4	16.4	8.1
Accrued benefit asset (liability)	\$ 34.4	\$ 35.0	\$ (130.0)	\$ (125.1)

25 Employee Future Benefits (continued)

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Expense				
Current service cost, net of employee contributions	\$ 2.4	\$ 2.0	\$ 3.1	\$ 3.0
Interest cost	14.0	14.9	6.8	7.0
Actual return on plan assets	(26.1)	(38.5)	–	–
Actuarial losses	7.0	21.3	8.7	18.4
Past service costs	–	1.5	(25.6)	–
(Income) expense before adjustments	(2.7)	1.2	(7.0)	28.4
Expected vs. actual return on plan assets	11.1	25.0	–	–
Recognized vs. actual past service costs	0.4	(1.1)	24.6	0.1
Recognized vs. actuarial gains	(2.1)	(15.2)	(8.4)	(18.5)
Net expense	\$ 6.7	\$ 9.9	\$ 9.2	\$ 10.0
Classification of accrued benefit asset (liability)				
Other asset	\$ 61.2	\$ 60.4	\$ –	\$ –
Other liability	(26.8)	(25.4)	(130.0)	(125.1)
Accrued benefit asset (liability)	\$ 34.4	\$ 35.0	\$ (130.0)	\$ (125.1)

Included in the accrued benefit obligation at year-end are the following amounts in respect of plans that are not funded:

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Accrued benefit obligation	\$ 26.8	\$ 25.4	\$ 130.0	\$ 125.1

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows (weighted-average assumptions as of May 7, 2011):

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Discount rate	5.25%	5.50%	5.25%	5.75%
Expected long-term rate of return on plan assets	7.00%	7.00%		
Rate of compensation increase	4.00%	4.00%		

For measurement purposes, a 9.00 percent fiscal 2011 annual rate of increase in the per capita cost of covered health care benefits was assumed (2010 – 9.00 percent). The cumulative rate expectation to 2019 is 5.00 percent. The EARS of the active employees covered by the pension benefit plans ranges from 10 to 12 years with a weighted average of 10 years at year end. The EARS of the active employees covered by the other benefit plans range from 10 to 14 years with a weighted average of 13 years at year end.

The table below outlines the sensitivity of the fiscal 2011 key economic assumptions used in measuring the accrued benefit plan obligation and related expense 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 obligation or benefit plan expense.

25 Employee Future Benefits (continued)

	Pension Plans		Other Benefit Plans	
	Benefit Obligation	Benefit Cost ⁽¹⁾	Benefit Obligation	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.3)		
1% decrease		\$ 2.3		
Discount rate ⁽²⁾	5.25%	5.25%	5.25%	5.75%
Impact of: 1% increase	\$ (28.8)	\$ 0.5	\$ (15.9)	\$ (0.2)
1% decrease	\$ 32.3	\$ (0.8)	\$ 17.1	\$ 0.2
Growth rate of health costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 17.1	\$ 2.0
1% decrease			\$ (14.7)	\$ (1.6)

(1) Reflects the impact on the current service cost, the interest cost and the expected return on assets.

(2) 5.00 percent for the Senior Management Plan, Oshawa SERP and Post-Retirement Benefits and 4.25 percent for the Post-Retirement Benefit Plan.

(3) Gradually decreasing to 5.00 percent in 2019 and remaining at that level thereafter.

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

	2011	2010
Cash and short-term investments	2.64%	1.78%
Bonds, debentures, fixed income pooled funds and real estate funds	37.80%	35.52%
Equities and pooled equities fund	57.64%	61.38%
Accrued interest and dividends	0.20%	0.21%
Foreign currency hedges	1.72%	1.11%
Total investments	100.00%	100.00%

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

	2011	% of Plan Assets	2010	% of Plan Assets
	\$ 80.6	7.8%	\$ 115.5	12.7%

26 Business Acquisitions

Sobeys acquires franchisee and non-franchisee stores and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the purchase method. As illustrated in the table below, the acquisition of certain franchisee stores and non-franchisee stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over their estimated useful life.

	2011 (53 Weeks)	2010 (52 Weeks)
Franchisees		
Inventory	\$ 5.4	\$ 6.0
Property and equipment	3.1	7.1
Intangibles	2.5	3.9
Goodwill	5.8	1.2
Other assets (liabilities)	0.2	(8.3)
	17.0	9.9
Prescription files		
Intangibles	–	6.9
Cash consideration	\$ 17.0	\$ 16.8

During fiscal 2010, ECL Properties Limited (a subsidiary of the Company) acquired additional units of two residential partnerships already co-owned by the Company for cash consideration of \$17.2. The acquisitions were accounted for using the purchase method with net identifiable assets, primarily land inventory, recorded at \$22.6 and future tax liabilities recorded at \$5.4.

27 Stock-Based Compensation

Deferred Share Units

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred share units ("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 director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the 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 in the DSU obligation as an operating expense. At May 7, 2011, there were 113,473 (May 1, 2010 – 104,527) DSUs outstanding. During the year, the compensation expense was \$1.1 (2010 – \$1.3).

Stock Option Plan

During fiscal 2011, the Company granted an additional 150,464 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. These options allow holders to purchase Non-Voting Class A Shares at \$51.99 per share and expire in June 2018. The options vest over four years with 50 percent of the options vesting only if certain financial targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

The compensation expense relating to the year was determined to be \$1.6 (2010 – \$1.6) with amortization of the expense over the vesting period. The total increase in contributed surplus in relation to the stock option compensation expense was \$1.6 (2010 – \$1.6). The compensation expense was calculated using the Black-Scholes model with the following assumptions:

Expected life	5.25 years
Risk-free interest rate	2.42%
Expected volatility	21.1%
Dividend yield	1.54%

27 Stock-Based Compensation (continued)

The outstanding options at May 7, 2011 were granted at prices between \$40.26 and \$51.99 and expire between June 2015 and June 2018. Stock option transactions during 2011 and 2010 were as follows:

	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	433,209	\$ 43.22	282,733	\$ 41.47
Granted	150,464	51.99	162,399	46.04
Exercised (2010 forfeited)	(18,102)	43.12	(11,923)	40.26
Balance, end of year	565,571	\$ 45.55	433,209	\$ 43.22
Stock options exercisable, end of year	187,658		90,894	

The following table summarizes information about stock options outstanding at May 7, 2011:

	Options Outstanding			Options Exercisable	
Year Granted	Number of Outstanding Options	Weighted Average Remaining Contractual Life ⁽¹⁾	Weighted Average Exercise Price	Number Exercisable at May 7, 2011	Weighted Average Exercise Price
2008	81,218	4.17	\$ 43.96	60,914	\$ 43.96
2009	173,086	5.17	40.26	86,543	40.26
2010	160,803	6.17	46.04	40,201	46.04
2011	150,464	7.17	51.99	–	–
	565,571	5.84	\$ 45.55	187,658	\$ 42.69

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

Share Purchase Plan

The Company has a share purchase plan for employees of the Company whereby loans are granted to purchase Non-Voting Class A Shares. These loans have been treated as stock-based compensation in accordance with EIC Abstract 132.

The Company's current practice is to use only the stock option plan to provide long-term incentive for employees. As a result, outstanding loans under the stock purchase plan will be repaid at the employees' option, but no later than the expiry date of the loans which were originally set for 10 years.

Phantom Performance Option Plan

Sobeys has a Phantom Performance Option Plan for eligible employees of Sobeys. Under the plan, units are granted at the discretion of the Board based on a notional equity value of Sobeys tied to a specified formula. Upon implementation, the units had a three year vesting period with 33.3 percent of the units vesting each year. Subsequent issuances have a four year vesting period with 25.0 percent of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five year period. The Company recognizes a compensation expense equal to the change in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any change in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as an accrued liability until settlement and is remeasured at each interim and annual reporting period of the Company. As at May 7, 2011, 1,701,404 (May 1, 2010 – 1,379,175) units were outstanding. For the year ended May 7, 2011, the Company recognized \$8.9 (2010 – \$11.5) of compensation expense associated with this plan.

28 Business Rationalization Costs

During fiscal 2011, the Company continued to complete rationalizations of administrative functions. The Company also began to incur costs associated with the development of a new distribution centre in Terrebonne, Québec. For the year ended May 7, 2011, costs of \$6.2 have been incurred and recognized (2010 – \$nil). Additional rationalization costs are anticipated and will be quantified and disclosed throughout fiscal 2012 as they are available. The costs associated with the organizational change are recorded as incurred as costs of sales, selling and administrative expenses in the statements of earnings. The liability as of May 7, 2011 is \$5.6 (2010 – \$1.5). Total costs incurred as of May 7, 2011 were \$31.1.

29 Variable Interest Entities

Variable interest entities are defined under AcG 15, "Consolidation of Variable Interest Entities" as entities that do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest. The guideline requires that the VIE be consolidated with the financial results of the entity deemed to be the primary beneficiary of the VIEs expected losses and its expected residual returns.

The Company has identified the following entities as VIEs:

Franchise Affiliates

The Company has identified 288 (2010 – 273) franchise affiliate stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG 15. The results for these entities were consolidated with the results of the Company.

Warehouse and Distribution Agreement

The Company has an agreement with an independent entity to provide warehouse and distribution services for one of its distribution centres. The terms of the agreement with this entity require the Company to consolidate its results with those of the Company pursuant to AcG 15.

30 Subsequent Events

Subsequent to year end, the Company sold two properties to Crombie REIT for net proceeds of \$27.6, which was fair market value. Also, the Company sold its 50% interest in two properties to a third party for \$14.6. As part of these transactions, first mortgage loans totalling \$12.7 were paid in full.

31 Comparative Figures

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation.

SHAREHOLDER AND INVESTOR INFORMATION

Empire Company Limited

Head Office:
115 King St.
Stellarton, Nova Scotia
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Telephone: (902) 755-4440
Fax: (902) 755-6477
www.empireco.ca

Investor Relations and Inquiries

Shareholders, analysts, and investors should direct their financial inquiries or requests to:

Stewart H. Mahoney, CFA
Vice President, Treasury & Investor Relations
E-mail: investor.relations@empireco.ca

Communication regarding investor records including changes of address or ownership, lost certificates or tax forms, should be directed to the Company's transfer agent and registrar, CIBC Mellon Trust Company.

Affiliated Company Web Addresses

www.sobeyscorporate.com
www.empiretheatres.com

Shareholders' Annual General Meeting

September 14, 2011, at 11:00 a.m. (ADT)
Empire Studio 7 Cinemas
610 East River Road
New Glasgow, Nova Scotia

Stock Exchange Listing

The Toronto Stock Exchange

Stock Symbols

Non-Voting Class A shares – EMP.A
Preferred shares: Series 2 – EMP.PR.B

Average Daily Trading Volume (TSX:EMP.A)

69,102

Dividend Record and Payment Dates for Fiscal 2012

Record Date	Payment Date
July 15, 2011	July 29, 2011
October 14, 2011*	October 31, 2011*
January 13, 2012*	January 31, 2012*
April 13, 2012*	April 30, 2012*

*Subject to approval by Board of Directors

Outstanding Shares

As of June 30, 2011

Non-Voting Class A shares	33,687,747
Class B common shares, voting	34,260,763

Transfer Agent

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
Investor Correspondence
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
M5C 2W9
Telephone: (800) 387-0825
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Bankers

Bank of Montreal
Bank of Nova Scotia
Bank of Tokyo-Mitsubishi
Canadian Imperial Bank of Commerce
National Bank of Canada
Rabobank
Royal Bank of Canada
TD Bank Financial Group

Solicitors

Stewart McKelvey
Halifax, Nova Scotia

Auditors

Grant Thornton, LLP
New Glasgow, Nova Scotia

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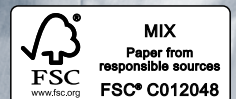
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Sustainability @ Sobeys

We are committed to ensuring the well-being of our customers, communities and company without compromising the ability of future generations to prosper on the planet that we all share. To learn more about what we are doing to minimize our environmental impact, please visit:

<http://www.sobeyscorporate.com/sustainability>

www.empireco.ca



CONFIDENTIAL - LEVEL A**CT-2010-010****THE COMPETITION TRIBUNAL**

IN THE MATTER OF the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

AND IN THE MATTER OF an application by the Commissioner of Competition pursuant to section 76 of the *Competition Act*;

AND IN THE MATTER OF certain agreements or arrangements implemented or enforced by Visa Canada Corporation and MasterCard International Incorporated.

BETWEEN:

THE COMMISSIONER OF COMPETITION

Applicant

- and -

**VISA CANADA CORPORATION and
MASTERCARD INTERNATIONAL INCORPORATED**

Respondents

- and -

**THE TORONTO-DOMINION BANK
THE CANADIAN BANKERS ASSOCIATION**

Intervenors

**WITNESS STATEMENT OF PAUL JEWER
(MARCH 7, 2012)**

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