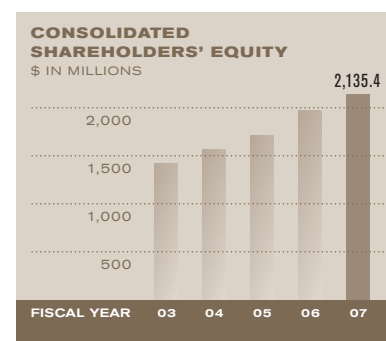
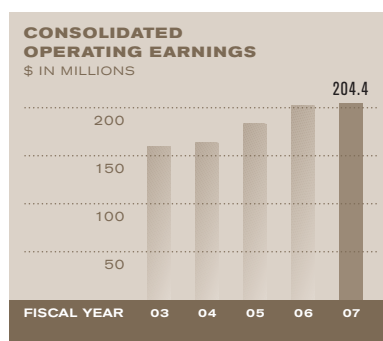
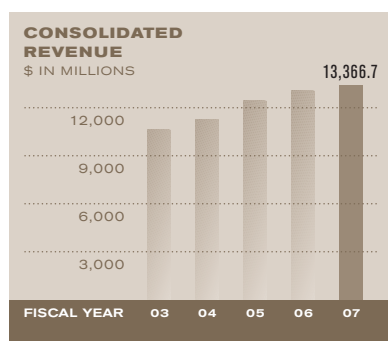


Management's Discussion and Analysis

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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 52 weeks ended May 5, 2007, as compared to the 52 weeks ended May 6, 2006. 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 52 weeks ended May 5, 2007. 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. Included in the Company's 2007 Annual Report, on page 100, is a glossary of terms used throughout this MD&A. The information contained in this MD&A is current to June 28, 2007, 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, results of operations, performance and business prospects and opportunities. These forward-looking statements include the following items:

- Sobeys' expectations regarding tobacco sales decline, which could be impacted by further changes in the sales and distribution practices of tobacco suppliers;
- Management's belief that the current growth rate in residential lot sales is not sustainable over the long-term and may be impacted by general economic conditions in the Western housing market;
- The Company's expectations related 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 in which the matters are resolved;
- Sobeys' expectations that the new distribution centre announced for Ontario and the closures of distribution centres in Québec will reduce overall distribution costs, which could be impacted by the number of positions eliminated at Sobeys' distribution centres in Ontario and Québec;
- Sobeys' expectations that administrative and business rationalization activities as well as system process initiatives in the current year and upcoming quarters will have a cost impact as expected and will provide thereafter annualized cost reductions, both of which could be impacted by the final scope and scale of these activities;
- Sobeys' expectation that sales growth will continue through 2008 could be impacted by market conditions and therefore may not be realized;
- The Company's expectations that its capital resources and liquidity position will meet its capital and liquidity requirements over the next year;
- The Company's expectations on future capital spending for its Real Estate and Food Retailing Divisions, which could be impacted by the availability of labour, capital resource allocation decisions, as well as general economic and market conditions;
- The Company's discussion of the potential disposition of real property by Sobeys Leased Properties. There are no agreements for any such transaction. There can be no assurances that these transactions will occur and, if they occur, no assurances as to the economic value of the transactions;
- The Company's expectations that the pension plan merger will be approved by the appropriate authorities. If this merger is not completed, the value of the transitional pension assets included in other assets on the balance sheet may be impacted; and
- The Company's expectation of continued strong occupancy levels which could be impacted by changes in demand for the Company's properties, tenant bankruptcies, the effect of general economic conditions and competitive supply of retail or office locations in proximity to the Company's locations.

Forward-looking statements are typically identified by words or phrases such as “anticipates”, “expects”, “believes”, “estimates”, “intends” and other similar expressions. These statements are based on management’s assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to inherent uncertainties, risks and other factors that could cause actual results to differ materially from such statements. These uncertainties and risks are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including those in the Risk Management section of this MD&A.

When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. 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.

Non-GAAP Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under Canadian GAAP. Management includes these measures because it believes certain investors

use these measures as a means of assessing relative financial performance. Additional information relating to non-GAAP financial measures is provided at the end of this document.

Overview of the Business

Empire is a Canadian company headquartered in Stellarton, Nova Scotia. Empire’s key businesses at year-end were: food retailing through a 72.1 percent ownership interest in Sobeys Inc. (“Sobeys”); real estate through two wholly-owned operating subsidiaries: Sobeys Leased Properties Limited (“SLP”), and ECL Properties Limited (“ECL”) which includes wholly owned ECL Developments Limited, a 35.7 percent ownership interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership 2 (collectively referred to as “Genstar”) and a 48.1 percent ownership interest in Crombie Real Estate Investment Trust (“Crombie REIT”); and corporate investment activities and other operations which include wholly-owned ETL Canada Holdings Limited (“Empire Theatres”),

Kepec Resources Limited (“Kepec”), a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta, and a 27.6 percent ownership position in Wajax Income Fund (“Wajax”). With approximately \$5.2 billion in assets, Empire employs approximately 40,000 people directly and through its subsidiaries.

Empire’s primary goal is to grow long-term shareholder value through income and cash flow growth and equity appreciation. This is accomplished through direct ownership and equity participation in businesses that management believes have the potential for long-term growth and profitability.

Food Retailing

Sobeys is a leading national retail grocery and food distributor headquartered in Stellarton, Nova Scotia. Founded in 1907, Sobeys owns or franchises more than 1,300 corporate and franchised food stores located in all 10 provinces under various retail banners including: Sobeys, IGA extra, IGA, Price Chopper and Foodland. Sobeys, its subsidiaries and its VIEs conduct business in four retail regions: Sobeys West, Sobeys Ontario, Sobeys Québec, and Sobeys Atlantic.

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: full service, fresh service, convenience service, community service and price service. Sobeys remains focused on improving the product, service and merchandising offerings within each format by realigning and renovating its current store base, while continuing to build new stores. Sobeys’ five major banners are the primary focus of these format development efforts.

During the year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 150 stores (2006 – 83 stores). In fiscal 2007, Sobeys continued to execute against a number of initiatives in support of its food-focused strategy including productivity initiatives and business process, supply chain and system upgrades.

Compliments, Sobeys private label brand, was launched in fiscal 2005 to contribute to growth of company-wide sales and profitability and earn a greater share of customers' food and grocery shopping requirements. The *Compliments* brand consists of three quality tiers: Value, Selection and Sensations. In addition, Sobeys introduced two sub-brands during fiscal 2006, *Compliments Organics* and *Compliments balance-équilibre*, an organic and healthy line of products, respectively. At the end of fiscal 2007, the *Compliments* brand consisted of approximately 4,400 products.

During fiscal 2007, Sobeys continued to make significant progress in the implementation of system-wide business process optimization initiatives that are designed to reduce complexity and improve processes throughout Sobeys.

Real Estate

Empire's real estate division consists of wholly-owned SLP and ECL, which includes an interest in Genstar, a residential land development business with operations primarily in Western Canada. ECL also owns various commercial properties held for redevelopment, a self-storage operation and a 48.1 percent ownership interest in Crombie REIT. Empire segments its real estate's financial results between commercial property operations, consisting of SLP and ECL, and residential property operations which consist primarily of Genstar.

Genstar's business is the development of raw land for residential use primarily carried out in Ontario and Western Canada. Genstar is accounted for on a proportionate consolidation basis.

At the end of fiscal 2007, commercial real estate operations had approximately 5.7 million square feet of gross leaseable area, relatively consistent with the 5.9 million square feet at the end of last fiscal year.

SLP owns commercial properties in the Atlantic Provinces, as well as in Ontario and Québec. The primary tenant of these properties is Sobeys and its subsidiaries. There have been no additions to SLP since 2001; its main focus remains on the renovation and expansion of its existing portfolio.

In fiscal 2006, Sobeys began its business process and information systems plan for the Company by focusing on the significant opportunity to upgrade information processing and decision support capabilities and improve efficiencies in the Ontario region. The system and processes that were implemented were developed over several years and are also employed in the Sobeys' Atlantic region. The Ontario roll-out standardized and streamlined the "back shop" in support of Sobeys' food-focused strategy. This move will allow Sobeys to leverage technology investments, improve efficiencies and lower costs over the long-term. During the third quarter of fiscal 2007 Sobeys completed the implementation of the system in the Ontario region in accordance with its plan. A similar business process and system initiative began in the Western region during fiscal 2007. Costs associated with the Ontario and West initiatives totalled \$0.21 per Empire share in fiscal 2007 as compared to \$0.13 per Empire share in fiscal 2006.

Subsequent to year-end on June 15, 2007, Empire acquired the outstanding common shares of Sobeys that it did not already own, achieving 100 percent ownership. Further details can be found in the section titled "Subsequent Events" near the end of this MD&A.

The remaining wholly-owned real estate operations are focused on commercial property development. For new commercial property development management is committed to adhering to a disciplined growth strategy. Specifically, investment decisions are expected to meet certain criteria, including:

- A satisfactory return on investment;
- A beneficial competitive effect on Sobeys;
- Credit-worthy tenants with long-term leases that include contractual increases;
- Enhanced geographic diversification; and
- Competitive positioning in the project target market.

Pursuant to a Development Agreement with Crombie REIT, ECL provides Crombie REIT with a preferential right to acquire all property developments proposed to be undertaken by ECL. ECL also has a Non-Competition Agreement with Crombie REIT, whereby it will not compete with Crombie REIT in the acquisition, ownership, investment in or development of any grocery-anchored shopping plazas in Canada. These agreements are for an initial 10-year term, subject to an extension reached by mutual agreement. Empire subsidiaries will continue to work closely with Crombie REIT to identify development opportunities that further Crombie REIT's external growth strategy.

Investments & Other Operations

The third component of Empire's business is its investments and other operations. Empire's investment portfolio consists of Canadian and U.S. common equity investments. At fiscal year-end, Empire's investments, excluding its investment in Genstar U.S. builder deals and in Crombie REIT, carried a market value of \$441.2 million consisting of Canadian common equity investments valued at \$391.7 million, foreign common equities (including the value of the forward contract hedges) valued at \$48.0 million in Canadian dollars, and other investments valued at \$1.5 million. The Canadian common equity investment market value includes the market value of Empire's equity accounted investment in Wajax (approximately a 27.6 percent ownership

position on a fully diluted basis) of \$154.6 million at fiscal year-end. All of Empire's portfolio investments are listed on a recognized public stock exchange.

Subsequent to fiscal year-end the liquid investments in the portfolio, with the exception of the investment in Wajax, were sold to assist in financing the acquisition of the remaining common shares of Sobeys that Empire did not already own (please see the section titled "Subsequent Events" in this MD&A for more information).

Other operations include wholly-owned Empire Theatres, the second largest movie exhibitor in Canada which owns or has an interest in 56 locations representing 394 screens, and Kepec.

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.

During the year, management and the Board of Directors undertook a comprehensive strategic review of Empire's businesses, thoroughly analyzing our potential growth opportunities and capabilities. As a consequence of this review it was determined that with 100 years of experience in the retail food industry and over 40 years in real estate, shareholder value could be increased by becoming even more focused on the core strengths of the Company. On April 26, 2007 Empire and Sobeys jointly announced that they had entered into an agreement pursuant to which Empire would acquire the remaining outstanding common shares of Sobeys. Subsequent to the end of the fiscal year, on June 15, 2007, Empire completed the privatization of Sobeys (see the section titled "Subsequent Events" in this MD&A for more information).

This decision results in the Company being clearly focused on its core strengths: food and related real estate development, while continuing to direct its energy and capital towards growing

the long-term sustainable value of each of its core operating businesses. While these respective core businesses are well established and profitable in their own right, the diversification they offer Empire by both business line and by market area served is considered by management to be an additional source of strength. Together, these 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 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.

Operational Changes

Listed below is a summary of events that impacted the fiscal year 2007 operating results and which affect the comparability of information for the 13-week and 52-week periods ended May 5, 2007 versus the 13-week and 52-week periods ended May 6, 2006:

- On August 27, 2006, Sobeys completed the acquisition of Achille de la Chevrotière Ltée and its associated companies

("ADL"), which included 25 owned or franchised retail store operations, other wholesale supply agreements and distribution facilities;

- For the 12 months ended May 5, 2007, Empire acquired 1,248,950 common shares of Sobeys, increasing its ownership position from 70.3 percent at May 6, 2006 to its position of 72.1 percent at May 5, 2007;

- On March 23, 2006, the Company completed the sale of 44 commercial properties to Crombie REIT. For both the quarter and fiscal year ended May 5, 2007, the Company is equity accounting its 48.1 percent ownership in Crombie REIT, whereas for the 13-week and 52-week periods ended May 6, 2006, the results included 100 percent of the operations related to these 44 commercial properties;
- Empire Theatres changed its year-end from the last Thursday in April to the last Thursday in December effective December 28, 2006. This change in Empire Theatres' year-end was made to align with industry practice. However, because of this change, the fiscal year ended May 5, 2007 contained 48 weeks of operations while the fiscal year ended May 6, 2006 contained 52 weeks of operations; and

- On September 30, 2005, Empire Theatres acquired 28 movie theatres. There are approximately 30 weeks of operations related to these newly acquired theatres in fiscal 2006 whereas there are 48 weeks included in fiscal 2007.

Also impacting comparability year-over-year are costs related to Sobeys' business process and system initiative, business rationalization, and privatization costs as outlined under the section titled "Fiscal 2007 Operating Performance by Division – Food".

The reader should note that management explains the impact of the above events when discussing the operating results for the food division, the real estate division and investments and other operations.

Consolidated Operating Results

The consolidated financial overview provided below reports on the financial performance for fiscal 2007 relative to the last two fiscal years.

Summary Table of Consolidated Financial Results

(\$ in millions, except per share information)	52 Weeks Ended		52 Weeks Ended		53 Weeks Ended	
	May 5, 2007	% of Revenue	May 6, 2006 ⁽¹⁾	% of Revenue	May 7, 2005	% of Revenue
Consolidated revenue	\$ 13,366.7	100.00%	\$ 13,063.6	100.00%	\$ 12,435.2	100.00%
Operating income	440.3	3.29%	491.4	3.76%	463.7	3.73%
Operating earnings	204.4	1.53%	202.0	1.55%	182.9	1.47%
Capital gains and other items, net of tax	5.7	0.04%	94.8	0.72%	3.7	0.03%
Net earnings	\$ 210.1	1.57%	\$ 296.8	2.27%	\$ 186.6	1.50%
BASIC EARNINGS PER SHARE						
Operating earnings	\$ 3.11		\$ 3.08		\$ 2.79	
Capital gains and other items, net of tax	0.09		1.45		0.05	
Net earnings	\$ 3.20		\$ 4.53		\$ 2.84	
Basic weighted average number of shares outstanding (in millions)	65.6		65.5		65.5	
DILUTED EARNINGS PER SHARE						
Operating earnings	\$ 3.10		\$ 3.07		\$ 2.78	
Capital gains and other items, net of tax	0.09		1.44		0.05	
Net earnings	\$ 3.19		\$ 4.51		\$ 2.83	
Diluted weighted average number of shares outstanding (in millions)	65.7		65.7		65.7	
Dividends per share	\$ 0.60		\$ 0.56		\$ 0.48	

(1) Restated.

Management's Explanation of Fiscal 2007 Annual Consolidated Results

The 13 weeks and 52 weeks ended May 6, 2006 have been restated to reflect the retroactive adjustment related to EIC-156. Please see the section entitled "Accounting Policy Changes – Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products) ("EIC-156")" in this MD&A.

The following is a review of Empire's consolidated financial performance for the 52-week periods ended May 5, 2007 compared to May 6, 2006.

Revenue

The consolidated revenue for fiscal 2007 was \$13.4 billion, an increase of \$303.1 million or 2.3 percent compared to fiscal 2006. Growth in Sobeys' sales of \$313.9 million and in investments and other operations of \$27.4 million was partially offset by a \$38.2 million reduction in revenue from the real estate division.

Items impacting revenue comparability:

- ▶ Sobeys' sales were negatively impacted by the disposition on March 31, 2006 of its Cash and Carry business in Ontario and Québec;
- ▶ Sobeys continued to experience declines in its tobacco sales. Late in the second quarter of fiscal 2007 a major Canadian tobacco supplier began to sell and distribute directly to certain Sobeys' customers, further impacting the decline;
- ▶ Revenue was positively impacted by the acquisition on August 27, 2006 of ADL. The acquisition included 25 owned or franchised retail store operations, other wholesale supply agreements and a distribution facility in Rouyn-Noranda, Québec;

Revenue and 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 2007 Operating Performance by Division" in this MD&A.

- ▶ Empire Theatres changed its year-end from the last Thursday in April to the last Thursday in December effective December 28, 2006. This change in Empire Theatres' year-end was made to align with industry practice. However, because of this change, fiscal year ended May 5, 2007 contained 48 weeks of operations while the fiscal year ended May 6, 2006 contained 52 weeks of operations, respectively;
- ▶ Revenue for the fiscal year-to-date ended May 5, 2007, included 48 weeks of revenue related to the acquisition of the 28 movie theatres, whereas the fiscal year-to-date ended May 6, 2006, included 30 weeks of revenue from the acquired movie theatres; and
- ▶ The sale of 44 properties to Crombie REIT has reduced the quarter and year-to-date revenue when compared to the prior year.

As presented in the following table, excluding the impact of the above items, revenue growth would have been 4.3 percent in fiscal 2007 compared to fiscal 2006.

REVENUE TABLE

52 Weeks Ended (\$ in millions)	May 5, 2007	May 6, 2006	\$ Change	% Change
Financially reported sales	\$ 13,366.7	\$ 13,063.6	\$ 303.1	2.3%
Add (deduct) the impact of:				
Cash and Carry disposal			196.1	
Wholesale tobacco decline			123.9	
ADL acquisition			(151.8)	
Theatre acquisition and year-end change ⁽¹⁾			(22.8)	
Sale of 44 commercial properties to Crombie REIT			116.7	
Subtotal			262.1	
			\$ 565.2	4.3%

(1) The impact for theatres' revenue, reflected in the above table, represents the reduction of four weeks of revenue for fiscal 2007 as a result of Empire Theatres' fiscal year-end change as well as an additional 18 weeks of revenue in the current fiscal year-to-date as a result of the acquisition of 28 movie theatres in the second quarter of the prior fiscal year.

Please refer to the section entitled "Fiscal 2007 Operating Performance by Division" for an explanation of the change in revenue by division.

Operating Income

Consolidated operating income, defined as operating earnings before minority interest, interest expense, income taxes and capital gains and other items, in fiscal 2007 totalled \$440.3 million compared to \$491.4 million last year, a decrease of \$51.1 million or 10.4 percent. The decrease in operating income is the result of a \$31.4 million or 9.5 percent decrease in operating income contribution from the food retailing division and a decrease in real estate division operating income of \$20.3 million or 14.7 percent, partially offset by a \$0.6 million or 2.8 percent increase in operating income from investments and other operations, net of corporate expenses.

Included in operating income for fiscal 2007 are \$51.7 million of pre-tax costs incurred by Sobeys related to its business process and system initiative, severance in its Atlantic, Québec and Ontario regions as a result of business rationalization, along with fixed asset and inventory write-offs, and privatization costs. Sobeys incurred \$18.6 million of pre-tax costs related to its business process and system initiative during the last fiscal year.

Please refer to the section entitled "Fiscal 2007 Operating Performance by Division" for an explanation of the change in operating income for each division.

Interest Expense

For the 52 weeks ended May 5, 2007, interest expense equalled \$60.1 million, versus \$83.8 million in the prior year. The \$23.7 million decrease in fiscal 2007 consolidated interest expense compared to last fiscal year is primarily due to a \$21.5 million reduction in interest expense connected to long-term debt.

Long-term debt, including long-term debt related to properties sold to Crombie REIT, was \$240.8 million lower in fiscal 2007 compared to fiscal 2006. The decrease in long-term debt and related long-term interest expense in fiscal 2007 is primarily related to the repayment of long-term debt as a result of the sale of 44 commercial properties to Crombie REIT in March 2006, partially offset by the issuance of \$125 million of Medium Term Notes ("MTN") in the second quarter by the food division.

Short-term interest expense declined \$2.2 million, to \$6.0 million from \$8.2 million last year. The decrease in short-term interest expense is primarily the result of proceeds generated from the sale of investments which were used in part to reduce bank indebtedness.

The majority of the Company's debt is long-term in nature carrying fixed interest rates; accordingly there is limited exposure to interest rate volatility. The Company is exposed to interest rate risk when arranging new debt.

Income Taxes

The effective income tax rate for fiscal 2007 was 32.5 percent versus 34.8 percent last year. The main reason for the fiscal year decrease is due to reductions in the Canadian federal and certain provincial statutory income tax rates and the application of those lower rates to future tax balances.

Minority Interest

In fiscal 2007, Empire recorded minority interest expense of \$57.0 million compared to \$66.9 million last year. The decrease of \$9.9 million in minority interest expense is primarily the result of lower Sobeys' earnings as well as an increase in Empire's ownership in Sobeys from 70.3 percent at May 6, 2006, to 72.1 percent at May 5, 2007. Empire purchased 1,248,950 common shares of Sobeys during fiscal 2007.

Operating Earnings

The \$2.4 million or 1.2 percent increase in fiscal 2007 operating earnings (earnings before capital gains and other items) over the prior year was the result of the \$51.1 million reduction in operating income partially offset by the \$23.7 million reduction in interest expense, the \$19.9 million reduction in income taxes and the \$9.9 million decrease in minority interest as discussed.

As mentioned, \$51.7 million of pre-tax costs incurred by Sobeys resulted in a \$24.4 million impact on Empire's fiscal 2007 net earnings (\$0.37 per share), whereas there were \$18.6 million of pre-tax costs incurred by Sobeys in fiscal 2006 that resulted in a \$8.6 million impact on Empire's net earnings (\$0.13 per share).

Capital Gains and Other Items

The Company generated capital gains and other items, net of tax, of \$5.7 million in fiscal 2007 largely as a result of net gains on the sale of investments. Fiscal 2006 capital gains and other items, net of tax, of \$94.8 million was realized primarily from the gain of \$76.2 million on the sale of properties to Crombie REIT and a net gain of \$23.5 million on the sale of 2.875 million Wajax Income Fund units last year, partially offset by a reduction in book value of real estate assets held for redevelopment of \$17.0 million, net of tax.

Net Earnings

Consolidated net earnings, including capital gains and other items, net of tax, totalled \$210.1 million (\$3.19 per share) in fiscal 2007, a decrease of \$86.7 million or 29.2 percent compared to last year. The decline in net earnings for fiscal 2007 compared to fiscal 2006 largely reflects lower capital gains and other items of \$89.1 million.



The modest increase in operating earnings reflects reduced operating income from both food retailing and real estate offset by lower interest expense, income taxes and minority interest expense.

Fiscal 2007 Operating Performance by Division

Food Retailing

HIGHLIGHTS

- Sobeys is celebrating 100 years in the food industry.
- Sobeys achieved fiscal 2007 sales growth of \$313.9 million or 2.5 percent and same-store sales growth of 2.4 percent.
- Total capital expenditures equalled \$482.8 million (total company-wide capital expenditures, which included franchisee and third party spending equalled \$580.0 million).
- Opened, or replaced 48 corporate and franchised stores, acquired 29 stores, expanded 24 stores and rebannered/ redeveloped 49 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.

52 Weeks Ended	May 5, 2007	May 6, 2006
Same-store sales growth	2.4%	4.0%
Sales growth	2.5%	5.4%
Basic earnings per share growth	(8.9%)	1.7%
Return on equity	9.1%	10.8%
Funded debt to total capital	23.7%	21.1%
Funded debt to EBITDA	1.2x	0.9x
Company-wide capital expenditures (in millions)	\$ 580	\$ 560

The table below presents sales, operating income and net earnings for Sobeys:

(\$ in millions)	52 Weeks Ended	52 Weeks Ended	Year over Year	
	May 5, 2007	May 6, 2006	\$ Change	% Change
Sales	\$ 13,032.0	\$ 12,718.1	\$ 313.9	2.5%
Operating income	300.2	331.6	(31.4)	(9.5%)
Net earnings	\$ 173.4	\$ 189.4	\$ (16.0)	(8.4%)

SALES

In fiscal 2007, Sobeys achieved sales of \$13.0 billion, an increase of \$313.9 million or 2.5 percent over fiscal 2006. During the fiscal year, same-store sales (sales from stores in the same locations in both reporting periods) increased by 2.4 percent. Same-store sales growth does not include wholesale sales.

Sales growth, for the year, was driven by Sobeys' continued implementation of sales and merchandising initiatives across the country, coupled with an increase in retail selling square footage resulting from the development of new stores, an ongoing program to enlarge and renovate existing store assets, and by the acquisition on August 27, 2006 of ADL. This acquisition included 25 owned or franchised retail store operations, other wholesale supply agreements and a distribution facility in Rouyn-Noranda, Québec.

Store square footage increased by 4.0 percent in fiscal 2007 as a result of the opening of 77 new or replacement stores and the expansion of 24 stores. There were 38 stores closed in fiscal 2007.

Sobeys expects sales growth to continue in fiscal 2008 as a result of the ongoing capital investment in its retail store network, and continued offering, merchandising and pricing improvements across the country.

Sobeys experienced declines in its wholesale tobacco sales during fiscal 2007. Wholesale tobacco sales declined \$123.9 million in fiscal 2007 compared to fiscal 2006. Sales growth was also negatively impacted by the disposition on March 31, 2006 of Sobeys' Cash and Carry business in Ontario and Québec. Cash and Carry sales were \$196.1 million in fiscal 2006. As shown in the table below, excluding the impact of the wholesale tobacco decline, the Cash and Carry disposition, and the ADL acquisition, Sobeys' sales growth would have been 3.8 percent in fiscal 2007.

52 Weeks Ended (\$ in millions)	May 5, 2007	May 6, 2006	\$ Change	% Change
Sobeys' financially reported sales	\$ 13,032.0	\$ 12,718.1	\$ 313.9	2.5%
Add (deduct) the impact of:				
Cash and Carry disposal			196.1	
Wholesale tobacco decline			123.9	
ADL acquisition			(151.8)	
Subtotal			168.2	
			\$ 482.1	3.8%

As noted in previous quarters, late in the second quarter of fiscal 2007 a major Canadian tobacco supplier began to sell and distribute directly to certain Sobeys' customers further impacting the decline in sales. This change is expected to reduce sales on an annual basis by approximately \$300.0 million. Margins on tobacco sales are significantly lower than on other products: the loss of these sales are not expected to have a material impact on earnings.

BUSINESS PROCESS AND SYSTEM INITIATIVE, BUSINESS RATIONALIZATION AND PRIVATIZATION COSTS

Included in earnings for fiscal 2007 were costs related to Sobeys' business process and system initiative as well as business rationalization and privatization costs. In total these costs had a \$51.7 million pre-tax impact on earnings (\$18.6 million pre-tax in fiscal 2006).

These costs include:

- **Business process and system initiative costs** – For the 52 weeks ended May 5, 2007, \$30.3 million (\$18.6 million in fiscal 2006) of pre-tax costs (\$4.9 million for the 13 weeks ended May 5, 2007 and \$5.3 million for the 13 weeks ended May 6, 2006) were incurred related to the business process and system initiative as outlined in "Overview of the Business" section. The business process and system initiative costs primarily include labour, implementation and training costs associated with the business process and system implementation as well as final costs associated with exiting the Comisso's banner. During the third quarter, Sobeys completed the implementation of the system in Ontario in accordance with its plans. This implementation supports all aspects of Sobeys' Ontario business including operations, merchandising, distribution and finance and is an important enabler of further initiatives in Ontario including the new distribution facility in Ontario as further discussed below. Sobeys continues its work on the business process and system initiative in the Western region.

- **Business rationalization costs** – Also during the third quarter of fiscal 2007, Sobeys completed a rationalization of administrative functions in Atlantic Canada. This administrative rationalization was completed following the recent successful implementation of Sobeys' first phase of the business process and system initiative. In addition to asset write-offs, in excess of 100 people were impacted by this rationalization; however, a number of these people were redeployed into Sobeys' retail store network. Pre-tax costs of \$7.9 million were incurred during the third quarter of fiscal 2007 as a result of this rationalization. Sobeys' expectations are for full-year expense reductions in fiscal 2008 in excess of these costs.
- **Ontario distribution network rationalization** – On November 21, 2006, Sobeys announced plans to build a new distribution centre in Vaughan, Ontario. Utilizing automation technology, the new facility is expected to significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. During the third quarter of the fiscal year Sobeys recognized \$5.3 million of severance costs associated with this rationalization. This new distribution centre, when opened in fiscal 2009, is expected to provide annual distribution cost savings in excess of the costs incurred in the third quarter and any additional business rationalization or restructuring costs incurred leading up to its opening.
- **Québec distribution network rationalization** – In the fourth quarter Sobeys completed the closure of two small facilities, one in Anjou and one in the Abitibi region of Québec. Rationalization costs related to these facilities of \$5.6 million were incurred in the fourth quarter. It is expected that the annualized savings associated with this closure will be approximately \$5.0 million.

► **Privatization** – On April 26, 2007, Empire and Sobeys jointly announced that they had entered into an agreement pursuant to which Empire would acquire the common shares of Sobeys, other than those owned by Empire or its subsidiaries at a price of \$58.00 per share. Pre-tax costs of \$2.6 million were incurred in the fourth quarter related to this transaction. Subsequent to the end of the fiscal year, on June 15, 2007, Empire completed the privatization of Sobeys (see the section titled “Subsequent Events” near the end of this MD&A).

Sobeys expects to incur additional administrative rationalization costs into the first half of fiscal 2008, as a result of its continuing business process and system initiative. The dollar value of these additional costs will be quantified and disclosed in the first quarter of fiscal 2008.

OPERATING INCOME

Sobeys' operating income equalled \$300.2 million during fiscal 2007, a 9.5 percent decrease from last year, with an operating income margin of 2.30 percent compared to 2.61 percent in fiscal 2006. Included in fiscal 2007 operating income was an \$18.7 million increase in depreciation and amortization expense,

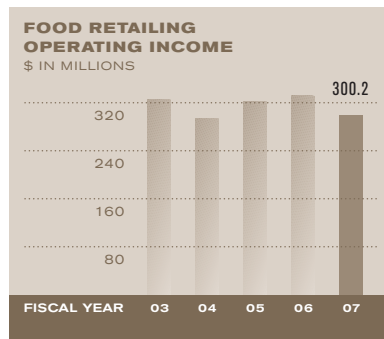
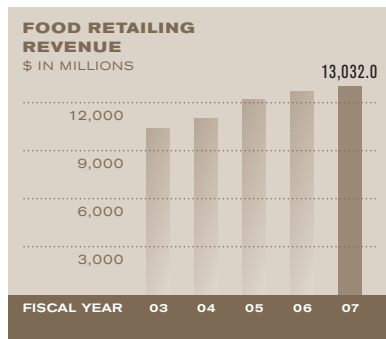
reflecting Sobeys' continued capital investments. Also included in operating income are the business process and system initiative, rationalization and privatization costs outlined previously.

Sobeys will continue to focus on disciplined cost management initiatives, supply chain and retail productivity improvements and migration of best practices across its four regions to continue to fuel and fund investments to drive sales and improve margins over time.

NET EARNINGS

Sobeys' fiscal 2007 net earnings equalled \$173.4 million, a decrease of 8.4 percent compared to the \$189.4 million recorded in the prior year. Empire's 72.1 percent ownership of Sobeys contributed net earnings of \$123.9 million in fiscal 2007 (\$130.1 million in fiscal 2006 based on a 70.3 percent ownership interest at the end of the year).

Sobeys' net earnings for the 52-week period ended May 5, 2007 included the increased depreciation and amortization expense, and the business process and system initiative costs as well as the business rationalization and privatization costs referred to above.



Despite growth in revenue, operating income declined as a result of Sobeys' continuing investment in its stores, business processes and systems and rationalization as well as privatization costs.

Real Estate

HIGHLIGHTS

- A record year for residential operations with growth in operating income contribution of \$19.9 million or 38.8 percent.
- A 49.0 percent total investment return from Crombie REIT since the initial public offering in March 2006.
- Appointed Donald Clow as President of ECL Developments with a mandate to become the developer of choice for Crombie REIT with Sobeys as a key tenant.
- Completed the Martello condominium project.

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.

52 Weeks Ended	May 5, 2007	May 6, 2006
Total square footage (in millions)	5.7	5.9
Occupancy	92.9%	93.2%
Funds from operations (\$ in millions)	\$ 74.6	\$ 76.5
Return on equity	17.5%	17.3%*
Funded debt to total capital	39.8%	41.9%

*Excluding gain on the sale of properties to Crombie REIT.

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

52 Weeks Ended (\$ in millions)	May 5, 2007	May 6, 2006	\$ Change	% Change
REVENUE				
Commercial	\$ 72.7	\$ 191.8	\$ (119.1)	(62.1%)
Residential	146.1	84.9	61.2	72.1%
	218.8	276.7	(57.9)	(20.9%)
Inter-segment	(34.3)	(54.0)	19.7	(36.5%)
	\$ 184.5	\$ 222.7	\$ (38.2)	(17.2%)
OPERATING INCOME				
Commercial	\$ 46.8	\$ 87.0	\$ (40.2)	(46.2%)
Residential	71.2	51.3	19.9	38.8%
	\$ 118.0	\$ 138.3	\$ (20.3)	(14.7%)
NET EARNINGS				
Commercial ⁽¹⁾	\$ 21.0	\$ 85.8	\$ (64.8)	(75.5%)
Residential	46.8	32.9	13.9	42.2%
	\$ 67.8	\$ 118.7	\$ (50.9)	(42.9%)
FUNDS FROM OPERATIONS				
Commercial	\$ 26.8	\$ 43.2	\$ (16.4)	(38.0%)
Residential	47.8	33.3	14.5	43.5%
	\$ 74.6	\$ 76.5	\$ (1.9)	(2.5%)

(1) There were no net capital gains in net earnings for fiscal 2007 compared to \$59.1 million last fiscal year.

REVENUE

Real estate division revenues (net of inter-segment amounts) during fiscal 2007 declined \$38.2 million or 17.2 percent compared to the previous fiscal year. Commercial property revenue declined \$99.4 million. This revenue decline was expected given the sale of 44 commercial properties to Crombie REIT, which accounted for approximately \$116.7 million of revenue last fiscal year. Revenue from residential operations equalled \$146.1 million in fiscal 2007 compared to \$84.9 million last year, a \$61.2 million or 72.1 percent increase. This increase is primarily attributed to higher Genstar revenue. Management continues to caution that the pace of growth experienced in residential lot sales is not sustainable over the long-term, but does expect continued strength in the Alberta market over the next several months.

OPERATING INCOME

During fiscal 2007, real estate division operating income declined \$20.3 million or 14.7 percent compared to last year as the result of a \$40.2 million decline in commercial operating income partially offset by a \$19.9 million increase in residential operating income. The commercial operating income decline was anticipated and is primarily attributed to the sale of 44 commercial

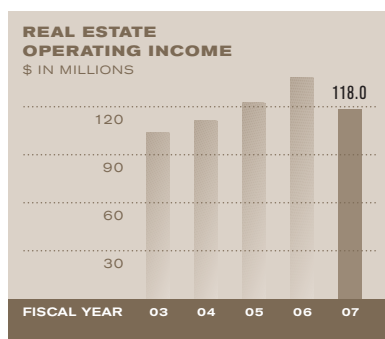
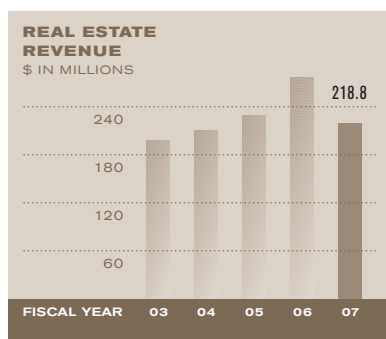
properties to Crombie REIT in March 2006 which accounted for approximately \$39.1 million of the decline. The residential operating income increase in fiscal 2007 reflects the continued strength in the Western housing market.

NET EARNINGS

Real estate division net earnings contribution in fiscal 2007 amounted to \$67.8 million compared to \$118.7 million last year, a \$50.9 million or 42.9 percent decrease. The earnings decline largely reflects the \$20.3 million reduction in operating income as discussed and a decrease in capital gains, net of tax, of \$59.1 million, partially offset by a \$23.3 million reduction in interest expense due to lower long-term debt levels as a result of the sale of 44 commercial properties to Crombie REIT and lower income tax expense of \$5.2 million.

FUNDS FROM OPERATIONS

Funds from real estate operations in fiscal 2007 of \$74.6 million decreased \$1.9 million or 2.5 percent compared to last year as a result of a decrease in commercial funds from operations of \$16.4 million due to lower operating earnings, partially offset by higher residential funds from operations of \$14.5 million due to higher operating earnings.



Real estate division performance reflects the impact of the sale of 44 commercial properties to Crombie REIT partially offset by improved residential performance.

Investments & Other Operations

HIGHLIGHTS

- A \$27.4 million or 22.3 percent increase in revenue.
- A \$5.3 million or 21.5 percent increase in investment income.
- A \$0.6 million or 2.8 percent increase in operating income.
- Capital gains of \$6.2 million generated on the sale of investments.
- Four year annualized return performance for Empire's portfolio was 27.3 percent compared to a 22.4 percent for the S&P/TSX Composite Index and a 9.0 percent total return for the S&P 500 Index, in Canadian dollars.
- Subsequent to year-end, the investment portfolio, excluding Wajax, was sold for proceeds of \$288 million, resulting in a net capital gain of \$101.4 million.

INVESTMENT VALUE

At the end of fiscal 2007, Empire's total investments, excluding its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of \$441.2 million on a cost base of \$221.9 million, resulting in an unrealized gain of \$219.3 million (2006 – \$214.3 million).

The table below presents a reconciliation of the consolidated balance sheet investments, both equity and cost, to those related to the investment and other operations division:

(in millions)	May 5, 2007			May 6, 2006		
	Market Value	Cost Value	Unrealized Gain	Market Value	Cost Value	Unrealized Gain
Investments, at cost	\$ 283.1	\$ 189.7	\$ 93.4	\$ 398.9	\$ 359.9	\$ 39.0
Investments, at equity	434.0	142.8	291.2	425.3	157.5	267.8
Less: Crombie REIT	278.1	109.3	168.8	220.7	112.8	107.9
Less: Genstar U.S. ⁽¹⁾	1.3	1.3	–	11.6	11.6	–
Plus: Hedge value	3.5	–	3.5	15.4	–	15.4
	\$ 441.2	\$ 221.9	\$ 219.3	\$ 607.3	\$ 393.0	\$ 214.3

(1) Assumes market value equals book value.

During fiscal 2007 there was a realized capital gain on the sale of investments equal to \$6.2 million compared to an \$11.6 million capital gain last year. The Company sold a significant portion of its U.S. equity investments during the year due to perceived market risk and used the proceeds to reduce bank indebtedness. The total unrealized gain position at the end of fiscal 2007 was \$219.3 compared to \$214.3 million at the end of fiscal 2006.

Realized capital gain for fiscal 2007, plus unrealized capital gain, combined to equal \$225.5 million at the end of the year. This compares to a total realized gain on investment sales plus

capital gains at the end of fiscal 2006 equal to \$225.9 million. The decrease in the realized plus unrealized gain position of \$0.4 million since the end of fiscal 2006 is largely the result of a decrease in the valuation of Wajax which was largely offset by an increase in valuations of other investments.

Subsequent to year-end the investment portfolio, with the exception of Wajax, was sold for proceeds of approximately \$288 million. For further details, please see the section entitled "Subsequent Events" in this MD&A.

PORTFOLIO COMPOSITION

At May 5, 2007, Empire's investment portfolio (excluding cash) consisted of:

(\$ in millions Cdn.)	Market Value	% of Total	Cost	Unrealized Gain (Loss)		
				May 5, 2007	May 6, 2006	May 7, 2005
Canadian equities	\$ 237.1	53.8%	\$ 144.9	\$ 92.2	\$ 68.8	\$ 51.4
Wajax	154.6	35.0%	32.2	122.4	159.9	89.5
U.S. equities	44.5	10.1%	43.3	1.2	(29.8)	(1.3)
Preferred shares & other	1.5	0.3%	1.5	—	—	—
Hedge value ⁽¹⁾	3.5	0.8%	—	3.5	15.4	5.2
Total	\$ 441.2	100.0%	\$ 221.9	\$ 219.3	\$ 214.3	\$ 144.8

(1) The hedge value of \$3.5 million is based on the \$1.0 million mark-to-market position of \$31 million CAD in currency forwards carrying an average forward foreign exchange rate of \$1.1377 CAD/USD plus \$2.5 million in deferred foreign currency gains on the repayment of U.S. dollar loans.

Empire's direct debt matched to the investment portfolio as of May 5, 2007 was \$6.5 million, representing approximately 1.5 percent of the investment portfolio's market value, including the hedge value. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

INVESTMENT RETURN

The table below presents the total return performance for Empire's investments (excluding the 48.1 percent interest in Crombie REIT) relative to Canadian and U.S. equity benchmark returns on an annualized one through four-year basis for periods ended March 31, 2007.

EMPIRE INVESTMENT PORTFOLIO TOTAL RETURN

For Periods Ending March 31, 2007	One Year	Two Years	Three Years	Four Years
Annualized Returns				
Empire Portfolio	1.1%	12.6%	17.2%	27.3%
Median Manager	11.4%	17.6%	15.3%	19.5%
S&P/TSX Index	11.4%	19.6%	17.7%	22.4%
S&P 500 Index in (C\$)	10.5%	9.1%	5.4%	9.0%

The total return on the Empire investment portfolio, as independently benchmarked against the performance of over 100 equity fund managers, has been ranked as first quartile (first quartile means the top 25 percent of surveyed equity fund managers) investment return performance over the three and four-year trailing periods ended March 31, 2007. Total return performance was relatively weak for the one-year period ended March 31, 2007 at 1.1 percent (fourth quartile), as a result of a decrease in the market price per unit of Wajax over this period of 14.0 percent. Wajax represented approximately one-third of the average portfolio value during fiscal 2007. The value of Wajax units was impacted by the announcement on October 31, 2006 made by the Government of Canada regarding the "Tax Fairness Plan", which intends to impose a tax on distributions from publicly traded income trusts and limited partnerships.

HEDGING INVESTMENT CURRENCY RISK

At May 5, 2007, Empire had hedged approximately 70.0 percent of the market value of its U.S. based common equity investments by way of \$31 million CAD of forward currency contracts. The average foreign exchange rate associated with these U.S. forward currency contracts is \$1.1377. The fair value of the hedge was \$1.0 million at the end of the fourth quarter.

The forward currency contracts replaced U.S. dollar borrowings which were repaid with a portion of the net cash proceeds from the closing of the Crombie REIT initial public offering on March 23, 2006. The repayment of the U.S. based borrowings resulted in a deferred hedge gain of \$10.2 million which will be realized on the eventual disposition of the underlying U.S. dollar portfolio investments. In fiscal 2007, \$7.7 million of this deferred gain had been recognized, resulting in a deferred hedge gain of \$2.5 million at the end of fiscal 2007.

The table below presents investments and other operations' financial highlights for the 52 weeks ended May 5, 2007 compared to the same period last year.

52 Weeks Ended (\$ in millions)	May 5, 2007	May 6, 2006	Year over Year Increase (Decrease)	
Revenue	\$ 150.2	\$ 122.8	\$ 27.4	22.3%
Investment income	29.9	24.6	5.3	21.5%
Operating earnings	12.7	12.7	-	0.0%
Capital gains and other items, net of tax	5.7	35.3	(29.6)	(83.9%)
Net earnings	\$ 18.4	\$ 48.0	\$ (29.6)	(61.7%)

REVENUE

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled \$150.2 million for fiscal 2007 versus \$122.8 million last year. There are 48 weeks of revenue included in fiscal 2007 compared to 52 weeks last year from Empire Theatres as a result of the change in Empire Theatres' year-end date. Fiscal 2006 included approximately 30 weeks of sales related to those newly acquired theatres in September 2006 compared to 48 weeks in fiscal 2007, which resulted in a net \$22.8 million increase in revenue, as previously mentioned.

INVESTMENT INCOME

Investment income (excluding equity earnings from Crombie REIT and Genstar's U.S. investments) equalled \$29.9 million in fiscal 2007, an increase of \$5.3 million over the \$24.6 million recorded last year. The increase is the result of dividend income that was \$1.4 million higher than last year and equity earnings from Wajax being \$3.9 million higher than last year.

OPERATING EARNINGS

Investment (net of corporate expenses) and other operations' operating earnings equalled \$12.7 million in fiscal 2007, consistent with last year. This was the result of lower interest expense, higher equity earnings contribution from Wajax and higher dividend income, partially offset by higher income taxes.

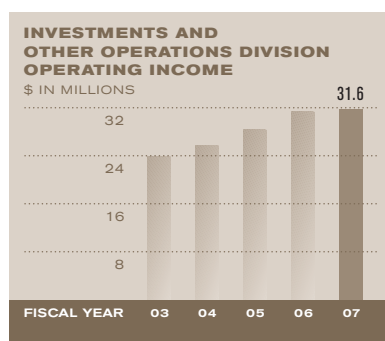
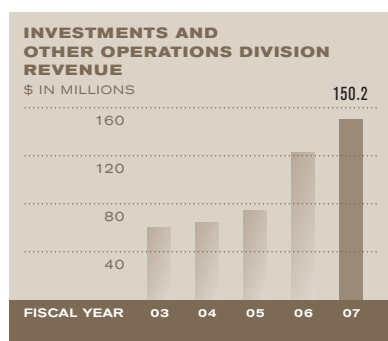
Empire's non-consolidated bank loans totalled \$6.5 million at the end of fiscal 2007 versus \$71.2 million at the beginning of the fiscal year, and \$25.2 million at the end of the third quarter this year. Cash proceeds from investments sales in the third quarter were used in part to reduce bank loans.

CAPITAL GAINS AND OTHER ITEMS

Capital gains, net of tax, realized from investment sales in fiscal 2007 amounted to \$5.7 million compared to \$35.3 million last year. The bulk of the capital gains, net of tax, for fiscal 2007 relates to the sale of common equity investments. The bulk of the net capital gains in the last fiscal year resulted from the sale of 2.875 million units of Wajax in the first quarter, with Empire retaining 4,577,994 units of Wajax.

NET EARNINGS

Investments (net of corporate expenses) and other operations contributed \$18.4 million to Empire's consolidated fiscal 2007 net earnings compared to a \$48.0 million net earnings contribution last year. The decrease is primarily the result of lower realized investment capital gains, net of tax, during the year.



With the change in the year-end date for Empire Theatres, fiscal 2006 includes 52 weeks of sales, including 30 weeks of revenue from newly acquired theatres, compared to 48 weeks of sales in fiscal 2007.

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.

Results by Quarter

(\$ in millions, except per share information)	Fiscal 2007				Fiscal 2006 ⁽¹⁾			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(13 Weeks) May 5, 2007	(13 weeks) Feb. 3, 2007	(13 weeks) Nov. 4, 2006	(13 weeks) Aug. 5, 2006	(13 weeks) May 6, 2006	(13 weeks) Feb. 4, 2006	(13 weeks) Nov. 5, 2005	(13 weeks) Aug. 6, 2005
Revenue	\$ 3,350.4	\$ 3,281.9	\$ 3,353.4	\$ 3,381.0	\$ 3,226.6	\$ 3,235.2	\$ 3,263.7	\$ 3,338.1
Operating income	123.2	79.7	116.2	121.2	130.9	118.3	122.1	120.1
Operating earnings ⁽²⁾	63.8	36.1	51.2	53.3	56.9	47.7	47.8	49.6
Capital gains (losses) and other items, net of tax	0.7	(1.0)	6.0	–	61.5	8.3	0.8	24.2
Net earnings	\$ 64.5	\$ 35.1	\$ 57.2	\$ 53.3	\$ 118.4	\$ 56.0	\$ 48.6	\$ 73.8
PER SHARE INFORMATION, DILUTED								
Operating earnings	\$ 0.97	\$ 0.54	\$ 0.78	\$ 0.81	\$ 0.87	\$ 0.72	\$ 0.73	\$ 0.75
Capital gains (losses) and other items, net of tax	0.01	(0.01)	0.09	–	0.93	0.13	0.01	0.37
Net earnings	\$ 0.98	\$ 0.53	\$ 0.87	\$ 0.81	\$ 1.80	\$ 0.85	\$ 0.74	\$ 1.12
Diluted weighted average number of shares outstanding (in millions)	65.7	65.7	65.7	65.7	65.7	65.7	65.7	65.7

(1) All quarters prior to the first quarter of fiscal 2007 have been restated to reflect retroactive adjustments related to EIC-156. Please see the section entitled "EIC-156" in this MD&A.

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

Revenue and operating earnings growth have been influenced by the Company's investing activities, the competitive environment, general industry trends and by other risk factors as outlined in this MD&A.

Fourth Quarter Results

SUMMARY TABLE OF CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER

(\$ in millions, except per share information)	13 Weeks Ended May 5, 2007	% of Revenue	13 Weeks Ended May 6, 2006	% of Revenue
Consolidated revenue	\$ 3,350.4	100.00%	\$ 3,226.6	100.00%
Operating income	123.2	3.68%	130.9	4.06%
Operating earnings	63.8	1.91%	56.9	1.76%
Capital gains and other items, net of tax	0.7	0.02%	61.5	1.91%
Net earnings	\$ 64.5	1.93%	\$ 118.4	3.67%
BASIC EARNINGS PER SHARE				
Operating earnings	\$ 0.97		\$ 0.87	
Capital gains and other items, net of tax	0.01		0.94	
Net earnings	\$ 0.98		\$ 1.81	
Basic weighted average number of shares outstanding (in millions)	65.6		65.5	
DILUTED EARNINGS PER SHARE				
Operating earnings	\$ 0.97		\$ 0.87	
Capital gains and other items, net of tax	0.01		0.93	
Net earnings	\$ 0.98		\$ 1.80	
Diluted weighted average number of shares outstanding (in millions)	65.7		65.7	

The following is a review of financial performance for the 13-week period ended May 5, 2007 compared to the 13-week period ended May 6, 2006.

REVENUE

Revenue for the fourth quarter was \$3.35 billion compared to \$3.23 billion last year, a \$123.8 million or 3.8 percent increase. As shown in the following table, excluding the quarterly impact of: the sale of the Sobeys' Cash and Carry business, the sale of 44 properties to Crombie REIT, the decline in wholesale tobacco sales and the ADL acquisition, revenue growth would have been 5.4 percent for the fourth quarter.

13 Weeks Ended (\$ in millions)	May 5, 2007	May 6, 2006	\$ Change	% Change
Financially reported sales	\$ 3,350.4	\$ 3,226.6	\$ 123.8	3.8%
Add (deduct) the impact of:				
Cash and Carry disposal			26.4	
Wholesale tobacco decline			37.5	
ADL acquisition			(41.5)	
Sale of 44 commercial properties to Crombie REIT			27.5	
Subtotal			49.9	
			\$ 173.7	5.4%

Food retailing division revenue increased by \$117.9 million or 3.8 percent compared to the fourth quarter of fiscal 2006. Same-store sales increased 2.3 percent during the fourth quarter of fiscal 2007. The growth in retail sales was a direct result of the continued implementation of sales and merchandising initiatives across Sobeys, and the ongoing financial commitment to upgrade and renovate existing store assets. As outlined above the decline in wholesale tobacco sales and the disposition of Sobeys' Cash and Carry business in Ontario and Québec had a negative impact on fourth quarter sales, however this was offset in part by the ADL acquisition. Excluding the impact of the tobacco decline, the impact of the Cash and Carry disposition, and the ADL acquisition, Sobeys' sales growth would have been 4.5 percent on a comparable 13-week basis.

Real estate operations reported fourth quarter revenues (net of inter-company elimination) of \$66.0 million, an increase of \$1.8 million or 2.8 percent over the fourth quarter last year. Commercial property revenue declined by \$23.9 million or 72.2 percent while revenue from residential operations increased by \$25.7 million or 82.6 percent. The decline in commercial property revenues was expected, resulting primarily from the sale of 44 properties to Crombie REIT nine days prior to the end of the fourth quarter last year. The increase in residential revenue from Genstar was the result of exceptionally strong lot sales, particularly in the Calgary and Edmonton, Alberta markets.

Revenue from investments and other operations in the fourth quarter equalled \$40.7 million, an increase of \$4.1 million or 11.2 percent over the fourth quarter last year. This is primarily related to higher revenue contributions from both Empire Theatres and Kepec.

OPERATING INCOME

Consolidated operating income in the fourth quarter of fiscal 2007 totalled \$123.2 million compared to \$130.9 million in the fourth quarter last year, a decrease of \$7.7 million or 5.9 percent. The decrease in operating income is the result of an \$11.0 million or 12.9 percent decline in operating income contribution from the food division, partially offset by an increase in real estate division operating income of \$5.4 million or 13.3 percent.

Included in operating income for the fourth quarter are \$13.1 million of pre-tax costs incurred by Sobeys related to its business process and system initiative, warehouse closure costs in Québec and privatization costs. Sobeys incurred \$5.3 million of pre-tax costs related to its business process and system initiative in the fourth quarter last year.

Residential real estate operating income of \$34.6 million increased \$17.6 million compared to the fourth quarter last year, reflecting the development and timing of land parcel and lot sales during the quarter. Commercial real estate operating income of \$11.5 million declined \$12.2 million from the same quarter last year, largely the result of the sale of 44 properties to Crombie REIT in the fourth quarter last year.

INTEREST EXPENSE

The \$4.7 million decrease in fourth quarter consolidated interest expense compared to the same quarter last year is primarily due to a \$3.7 million reduction in long-term interest expense. This is primarily related to the decrease in real estate long-term debt as a result of the sale of commercial property to Crombie REIT in the fourth quarter last year, as previously discussed.

INCOME TAXES

The effective income tax rate for the fourth quarter was 30.3 percent versus 32.9 percent in the fourth quarter last year. The main reason for this decrease in the tax rate is due to a reduction in the Canadian federal and certain provincial statutory income tax rates and the application of those lower rates to future tax balances, related to the real estate operations.

MINORITY INTEREST

In the fourth quarter of fiscal 2007, Empire recorded minority interest expense of \$13.9 million compared to \$18.9 million in the fourth quarter last year. The decrease of \$5.0 million in minority interest is primarily the result of lower Sobeys' earnings as well as an increase in Empire's ownership in Sobeys from 70.3 percent at May 6, 2006 to 72.1 percent at May 5, 2007.

OPERATING EARNINGS

The \$6.9 million or 12.1 percent increase in operating earnings (earnings before capital gains and other items) over the prior year was the result of the \$7.7 million reduction in operating income more than offset by the \$4.7 million reduction in interest expense, the \$4.9 million reduction in income taxes and the \$5.0 million reduction in minority interest, as discussed.

CAPITAL GAINS AND OTHER ITEMS

The Company generated capital gains and other items, net of tax, of \$0.7 million in the fourth quarter compared to \$61.5 million last year. The fourth quarter of fiscal 2006 included the gains from the sale of properties to Crombie REIT.

NET EARNINGS

Consolidated net earnings, including capital gains and other items, net of tax, totalled \$64.5 million (\$0.98 per share) in the fourth quarter, a decrease of \$53.9 million or 45.5 percent over the fourth quarter last year.

Financial Condition

Capital Structure and Key Financial Condition Measures

The Company's financial condition at the end of fiscal 2007 remained healthy as indicated by the following financial condition measures.

(\$ in millions, except per share and ratio calculations)	May 5, 2007	May 6, 2006	May 7, 2005
Shareholders' equity	\$ 2,135.4	\$ 1,965.2	\$ 1,709.0
Book value per share	32.37	29.77	25.87
Minority interest	590.2	585.4	556.3
Bank indebtedness	30.1	98.6	219.4
Long-term debt, including current portion ⁽¹⁾	881.9	809.8	974.4
Funded debt to total capital	29.9%	31.6%	41.1%
Net debt to capital ratio ⁽²⁾	22.4%	22.4%	34.8%
Adjusted debt to total capital ⁽³⁾	48.1%	50.4%	53.5%
Debt to EBITDA	1.42x	1.33x	1.85x
Interest coverage	7.33x	5.86x	5.35x
Total assets	\$ 5,224.9	\$ 5,051.5	\$ 4,929.2

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

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

(3) Adjusted debt includes capitalization of lease obligations based on six times net annual lease payments (gross lease payments net of expected sub-lease income).

Empire's financial condition continued to strengthen as evidenced by the improvement in interest coverage, a reduction in funded debt to total capital and an increase in the book value per share.

Shareholders' Equity

Book value per common share was \$32.37 at May 5, 2007, compared to \$29.77 at May 6, 2006 and \$25.87 at May 7, 2005. The increase in book value largely reflects the Company's earnings growth.

The Company's share capital on May 5, 2007 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares
Preferred shares, par value \$25 each, issuable in series	2,814,100	300,000
2002 Preferred shares par value \$25 each, issuable in series	992,000,000	—
Non-Voting Class A shares, without par value	259,107,435	31,174,037
Class B common shares, without par value, voting	40,800,000	34,560,763

Total Non-Voting Class A and Class B common shares outstanding at May 5, 2007 equalled 65,734,800, slightly lower than the previous fiscal year-end, May 6, 2006. There were 31,174,037 Non-Voting Class A and 34,560,763 Class B common shares outstanding at May 5, 2007. Empire had no options outstanding at May 5, 2007 compared to 27,674 options outstanding at May 6, 2006. There were 27,674 options exercised during the

second quarter of fiscal 2007. During the third quarter of fiscal 2007 the Company purchased for cancellation 31,900 Series 2 Preferred shares for \$0.8 million; no preferred shares were purchased in fiscal 2006. The Company plans to purchase for cancellation an additional 100,000 Series 2 Preferred shares by the end of calendar 2007.

Empire has a policy of repurchasing enough Non-Voting Class A shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under its stock option and share purchase plans. During fiscal 2007, Empire purchased 46,047 Non-Voting Class A shares for cancellation versus 20,254 shares purchased for cancellation in fiscal 2006.

On July 26, 2006, Empire filed a Notice of Intention to make a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation up to 623,200 shares representing approximately 2.0 percent of the issued and outstanding Non-Voting Class A shares. The Board of Directors and senior management of Empire are of the opinion that from time to time the purchase of Class A Non-Voting shares at the prevailing market prices is a worthwhile use of funds and in the best

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of bank indebtedness and long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. Total fixed rate, long-term debt (including the current portion of long-term debt) at May 5, 2007 was \$700.9 million, representing 76.8 percent of Empire's total funded debt of \$912.0 million. Funded debt has increased \$3.6 million from the previous fiscal year, May 6, 2006 (\$908.4 million). The increase over fiscal 2006 is primarily the result of the \$125 million MTN issued by Sobeys in the second quarter of fiscal 2007, partially offset by reductions in indebtedness matched to investment and other operations of

interests of Empire and its shareholders. The Normal Course Issuer Bid expires on July 27, 2007. The Company intends to renew its Normal Course Issuer Bid.

As at June 28, 2007, the Company had total Non-Voting Class A and Class B common shares outstanding of 31,174,037 and 34,560,763 respectively.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to \$39.5 million in fiscal 2007 (\$0.60 per share) versus \$36.7 million (\$0.56 per share) in fiscal 2006. Subsequent to fiscal year-end, on June 28, 2007, the Company announced an increase in the dividend rate to \$0.66 per share annually.

\$78.4 million and real estate of \$40.7 million. The reduction in investment and other operations indebtedness is the result of proceeds on investment sales being used to reduce the short-term debt levels, while the real estate reduction relates to payments to Crombie REIT in connection with commitments for capital expenditures, rental income subsidies, interest rate subsidies and tax subsidies as detailed in various commercial agreements between ECL and Crombie REIT.

The majority of Empire's funded debt is long-term in nature. The long-term debt, excluding bank indebtedness, is segmented by division as follows:

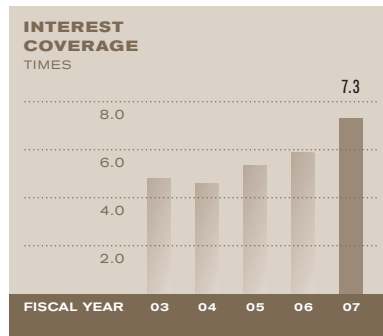
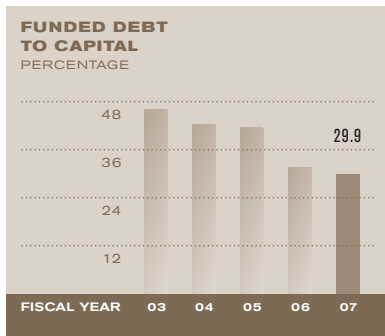
Long-term debt (\$ in millions)	May 5, 2007	May 6, 2006	May 7, 2005
Food retailing	\$ 612.7	\$ 490.0	\$ 457.8
Real estate	228.1	261.0	512.2
Investments and other operations	41.1	58.8	4.4
Total	\$ 881.9	\$ 809.8	\$ 974.4

On October 6, 2006, Sobeys issued a \$125.0 million Series E MTN with a maturity date of October 6, 2036 (30 years) and a coupon rate of 5.79 percent, the proceeds of which were used for general corporate purposes.

Since last fiscal year-end, the consolidated funded debt to total capital ratio has decreased 1.7 percentage points to 29.9 percent as higher debt levels were more than offset by growth in total capital.

Interest coverage in fiscal 2007 was 7.3 times, an increase from the 5.9 times reported for the fiscal year ended May 6, 2006. The increase in the interest coverage ratio relative to the prior year is the result of lower interest expense.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 52 weeks ended May 5, 2007 and for fiscal 2006.



Empire's financial condition remained healthy in almost every financial metric.

Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At May 5, 2007, there were no interest rate hedges in place by Empire directly or with any of its operating companies, other than Empire Theatres. Empire Theatres entered into two interest rate swaps on December 27, 2006, which fixed the interest rate on \$20.0 million of the floating rate debt at 4.28 percent plus a stamping fee, for a five-year term. These swaps fixed the interest rate on approximately 40 percent of Empire Theatres' total indebtedness, all of which is borrowed at floating rates.

To mitigate the currency risk associated with the Company's U.S. dollar investments, including its investment in Genstar U.S., Empire entered into and designated \$31.0 million CAD dollar forward currency contracts with staggered maturities to act as a hedge against the effect of a stronger Canadian dollar

relative to the U.S. dollar. The fair value of these currency forwards at May 5, 2007 was positive \$0.9 million U.S. Approximately 70 percent of the market value of U.S. dollar common equities in the Empire investment portfolio was hedged at an average foreign exchange rate of \$1.1377. These forward exchange contracts have variable maturities over the next year and were wound-up subsequent to year-end.

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. The fair value of these contracts at year-end was \$0.9 million.

Empire and its subsidiaries utilize hedging instruments as deemed appropriate to mitigate risk exposure, not for speculative purposes.

Liquidity and Capital Resources

Empire's liquidity remained strong at May 5, 2007 as a result of the following sources of liquidity:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities;
- Availability of long-term debt financing;
- Empire's portfolio of liquid investments; and
- Cash generated from operating activities.

At May 5, 2007, cash and cash equivalents equalled \$294.9 million versus \$341.1 million at May 6, 2006.

At the end of fiscal 2007, on a non-consolidated basis, Empire maintained authorized bank lines for operating, general and corporate purposes of \$325.0 million, of which \$6.5 million or 2.0 percent was utilized. On a consolidated basis, Empire's

authorized bank credit facilities exceeded borrowings by \$661.0 million at May 5, 2007, versus \$626.4 million at May 6, 2006.

Subsequent to fiscal year-end, on June 15, 2007, Empire purchased all of the outstanding common shares of Sobeys that it did not then own for a total consideration of approximately \$1.06 billion. Please see the section titled "Subsequent Events" for more details.

The Company anticipates that its capital resources will meet its financial and liquidity requirements over the next year, including capital expenditures, dividends and scheduled debt repayments.

The following table highlights major cash flow components for the 13 weeks and 52 weeks ended May 5, 2007 compared to the 13 weeks and 52 weeks ended May 6, 2006.

MAJOR CASH FLOW COMPONENTS

(\$ in millions)	13 Weeks Ended May 5, 2007	13 Weeks Ended May 6, 2006	52 Weeks Ended May 5, 2007	52 Weeks Ended May 6, 2006
Earnings for common shareholders	\$ 64.4	\$ 118.3	\$ 209.7	\$ 296.5
Items not affecting cash	127.2	45.1	387.5	254.4
	191.6	163.4	597.2	550.9
Net change in non-cash working capital	90.3	168.3	(147.8)	75.7
Cash flows from operating activities	281.9	331.7	449.4	626.6
Cash flows used in investing activities	(154.8)	(19.9)	(435.4)	(472.9)
Cash flows used in financing activities	(35.6)	(136.3)	(60.2)	(94.3)
Increase (decrease) in cash and cash equivalents	\$ 91.5	\$ 175.5	\$ (46.2)	\$ 59.4

Operating Activities

Fourth quarter cash flows from operating activities equalled \$281.9 million compared to \$331.7 million in the comparable period last year. The decline of \$49.8 million is largely attributed to a decrease in the net change in non-cash working capital of \$78.0 million, and by a decrease in net earnings available for common shareholders of \$53.9 million as discussed, partially offset by an increase in items not affecting cash of \$82.1 million. The decrease in earnings for common shareholders is primarily the result of the \$76.2 million gain last year associated with the sale of properties to Crombie REIT.

In fiscal 2007, operating activities generated cash flow of \$449.4 million compared to \$626.6 million last year. After adjusting for the one-time gain on the sale of Wajax units of \$23.5 million and the gain on the sale of property to Crombie REIT of \$76.2 million in fiscal 2006, earnings for common shareholders increased \$13.0 million and items not affecting cash, primarily Sobeys' rationalization costs and depreciation and amortization, increased \$33.4 million, partially offset by reduced minority interest. Non-cash working capital decreased \$223.5 million, resulting in a \$177.2 million decrease in cash flows from operating activities for the 52 weeks ended May 5, 2007.

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 5, 2007	Feb. 3, 2007	Q4 F2007 vs. Q3 F2007 Increase (Decrease) in Cash Flows	Q4 F2006 vs. Q3 F2006 Increase (Decrease) in Cash Flows
Receivables	\$ 326.8	\$ 328.4	\$ 1.6	\$ (0.5)
Inventories	757.5	772.8	15.3	32.3
Prepaid expenses	51.4	51.9	0.5	(0.9)
Accounts payable and accrued liabilities	(1,260.3)	(1,176.2)	84.1	111.5
Income taxes receivable (payable)	3.6	(17.9)	(21.5)	34.6
Impact of rationalization costs on working capital	(0.6)		0.6	
Impact of business acquisitions on working capital	(1.6)		1.6	-
Other items	(8.1)	-	8.1	(8.7)
Total	\$ (131.3)	\$ (41.0)	\$ 90.3	\$ 168.3

NON-CASH WORKING CAPITAL (YEAR-OVER-YEAR)

(\$ in millions)	May 5, 2007	May 6, 2006	Year-Over-Year Increase (Decrease) in Cash Flows
Receivables	\$ 326.8	\$ 275.4	\$ (51.4)
Inventories	757.5	694.3	(63.2)
Prepaid expenses	51.4	51.5	0.1
Accounts payable and accrued liabilities	(1,260.3)	(1,241.8)	18.5
Income taxes receivable (payable)	3.6	(35.8)	(39.4)
Impact of rationalization costs on working capital	12.1	-	(12.1)
Impact of business acquisitions on working capital	(12.9)	-	12.9
Other items	13.2	-	(13.2)
Total	\$ (108.6)	\$ (256.4)	\$ (147.8)

The net increase in non-cash working capital of \$90.3 million in the fourth quarter was largely due to an \$84.1 million increase in payables and a \$15.3 million decrease in inventories, partially offset by decreased income taxes payable of \$21.5 million compared to the third quarter ended February 3, 2007. The decrease in inventory is primarily related to lower inventory requirements in the food division following the December selling season. The decrease in taxes payable compared to the third quarter reflects the timing of tax remittances, while the increased accounts payable and accrued liabilities reflects higher supplier payables and accrued liabilities as construction activities have increased.

Year-over-year, non-cash working capital decreased \$147.8 million. Sobeys contributed \$88.7 million to this decrease related to increased receivables, inventory and associated payables necessary to support Sobeys' higher sales volume due to the increased amount of square footage in its expanded store network. The \$147.8 million decrease was also significantly impacted by tax deposits with CRA related to reassessments, described in the section titled "Contingencies" in this MD&A.

Investing Activities

Cash used in investing activities equalled \$154.8 million in the fourth quarter of fiscal 2007 compared to \$19.9 million in the fourth quarter last year. The fourth quarter investing activities last year benefited from proceeds of \$267.7 million related to the sale of property to Crombie REIT, which was partially offset by the purchase of Sobeys' common shares in the amount of \$49.5 million and the purchase of portfolio investments totalling \$112.9 million. Investment in property, equipment and other assets totalled \$166.5 million in the fourth quarter versus \$137.3 million in the same quarter last year.

For the fiscal year, cash used in investing activities decreased \$37.5 million to total \$435.4 million. This was primarily the result of: (i) a net decrease in investments of \$317.4 million, (ii) proceeds on sale of property to Crombie REIT in fiscal 2006 of \$267.7 million, (iii) reduced purchases of property plant and equipment of \$1.2 million and (iv) increased proceeds on the sale of other property of \$39.6 million.

Consolidated on-balance sheet purchases of property, equipment and other assets totalled \$545.2 million compared to \$546.4 million last fiscal year. The table below presents on-balance sheet capital expenditures over the last two years by division.

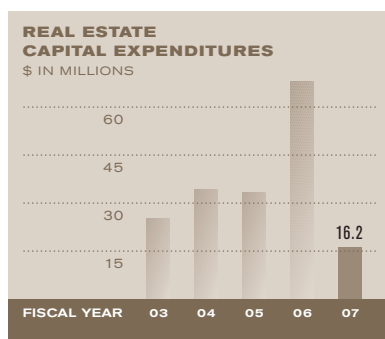
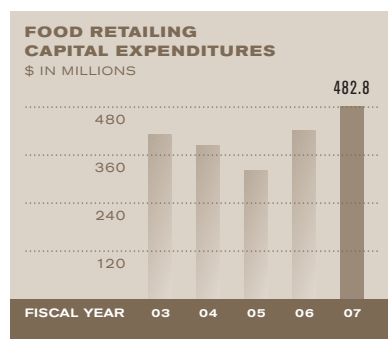
(\$ in millions)	May 5, 2007	May 6, 2006
Food retailing	\$ 482.8	\$ 421.3
Real estate	16.2	67.9
Investments and other operations	46.2	57.2
Total	\$ 545.2	\$ 546.4

Food division company-wide capital investment which includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investment by third-party landlords totalled \$580.0 million in fiscal 2007, an increase of \$20.0 million from \$560.0 million recorded in the previous year.

The table below outlines the number of stores Sobeys invested in during fiscal 2007 compared to fiscal 2006.

SOBEYS' CORPORATE AND FRANCHISED STORE CONSTRUCTION ACTIVITY

# of Stores	13 Weeks Ended	13 Weeks Ended	52 Weeks Ended	52 Weeks Ended
	May 5, 2007	May 6, 2006	May 5, 2007	May 6, 2006
Opened/Relocated	7	12	48	56
Acquired	–	–	29	–
Expanded	3	4	24	18
Rebanned/Redeveloped	13	4	49	9
Closed	(9)	–	(38)	(76)



Empire's capital expenditure program is focused on developing food-anchored shopping plazas that build on the relationship between the food retailing and real estate businesses.

The following table shows Sobeys' square footage changes for the 13 weeks and 52 weeks ended May 5, 2007 by type.

SOBEYS' SQUARE FOOTAGE CHANGES

Square Feet	13 Weeks Ended May 5, 2007	52 Weeks Ended May 5, 2007
Opened	58,278	464,166
Relocated	142,368	548,372
Acquired	–	437,362
Expanded	3,480	120,895
Rebannered/Redeveloped	–	(13,714)
Closed	(138,846)	(567,172)
	65,280	989,909

At May 5, 2007, Sobeys' square footage totalled 26.4 million square feet, a 4.0 percent increase over May 6, 2006.

Sobeys continues to focus on growth through a combination of new store openings, renovations, replacements and enlargements and, where appropriate, through strategic

Financing Activities

Financing activities during the fourth quarter used \$35.6 million of cash compared to \$136.3 million of cash used in the comparable period of fiscal 2006. Net repayments of funded debt amounted to \$19.0 million in the fourth quarter (repayments of \$40.9 million net of issuances of \$21.9 million) compared to net repayments of \$126.5 million (repayments of \$281.7 million net of issuances of \$155.2 million) in the fourth quarter of fiscal 2006. In the fourth quarter of fiscal 2006 some of the proceeds from the sales of property to Crombie REIT were used to pay down bank indebtedness, and also to purchase common shares of Sobeys.

Accounting Policy Changes

The following accounting standards have been implemented during fiscal 2007 and 2006:

ACCOUNTING FOR CONSIDERATION BY A VENDOR TO A CUSTOMER (INCLUDING A RESELLER OF THE VENDOR'S PRODUCTS) ("EIC-156")

Issued in September 2005, EIC-156 addresses cash consideration, including a sales incentive, given by a vendor to a customer. This consideration is presumed to be a reduction of the selling price of the vendor's products and should therefore be classified as a reduction of sales in the vendor's income

acquisitions. It is expected that there will be an increase in capital expenditures in fiscal 2008. This will include a continued focus on the retail store network along with increased spending on landbank sites and logistics infrastructure, particularly the new distribution centre in Vaughan, Ontario as previously announced. During fiscal 2008, Sobeys plans to open, expand, or renovate approximately 150 corporate and franchised stores across Canada, increasing square footage by approximately four percent.

Capital expenditures for the real estate division equalled \$16.2 million in fiscal 2007 (\$67.9 million in fiscal 2006) as a result of ongoing property developments and land additions. The capital expenditures are expected to accelerate in fiscal 2008 as a result of ECL Developments' focus on acquiring sites for grocery-anchored shopping plaza development.

Capital spending by investments and other operations equalled \$46.2 million in fiscal 2007 (\$57.2 million in fiscal 2006) as a result of expenditures to invest in selected oil and gas properties in Alberta through Kepec and to modernize and develop various movie theatre locations.

For the fiscal year, financing activities decreased cash by \$60.2 million compared to a \$94.3 million decline last year. Bank indebtedness decreased in fiscal 2007 by \$68.5 million compared to a \$110.6 million decrease last year. In fiscal 2007, proceeds from the sale of investments were used to reduce bank indebtedness. The Company added net long-term debt of \$57.8 million in fiscal 2007 versus \$47.0 million added last year.

statement. These recommendations were effective for all interim and annual financial statements for fiscal years beginning on or after January 1, 2006.

Prior to the implementation of EIC-156, Sobeys recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses. As reclassifications, these changes did not impact net earnings.

Effective in the first quarter of fiscal 2007, sales figures were retroactively restated as required by EIC-156. The following is a summary of the restatement of selected consolidated financial statements for each of the eight most recently completed quarters.

(\$ in millions)	Fiscal 2007				Fiscal 2006 ⁽¹⁾			
	Q4 (13 Weeks)	Q3 (13 weeks)	Q2 (13 weeks)	Q1 (13 weeks)	Q4 (13 weeks)	Q3 (13 weeks)	Q2 (13 weeks)	Q1 (13 weeks)
	May 5, 2007	Feb. 3, 2007	Nov. 4, 2006	Aug. 5, 2006	May 6, 2006	Feb. 4, 2006	Nov. 5, 2005	Aug. 6, 2005
Sales as previously reported	\$ 3,384.8	\$ 3,318.0	\$ 3,388.6	\$ 3,416.5	\$ 3,263.4	\$ 3,271.1	\$ 3,295.9	\$ 3,368.4
Sales after reclassification	\$ 3,350.4	\$ 3,281.9	\$ 3,353.4	\$ 3,381.0	\$ 3,226.6	\$ 3,235.2	\$ 3,263.7	\$ 3,338.1
Reclassification between sales and cost of sales, selling and administrative expenses	\$ 34.4	\$ 36.1	\$ 35.2	\$ 35.5	\$ 36.8	\$ 35.9	\$ 32.2	\$ 30.3

ACCOUNTING BY A CUSTOMER (INCLUDING A RESELLER) FOR CERTAIN CONSIDERATION RECEIVED FROM A VENDOR ("EIC-144")

During fiscal 2006, the Company adopted the amendment to EIC-144 issued in January 2005. The amendment requires disclosure of the amount of vendor allowances that have been recognized in income but for which the full requirements for entitlement have not yet been met. Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. In accordance with EIC-144, the Company recognizes these allowances in income when it is probable that the minimum purchase level will be met, and the amount of allowance can be estimated. As of the fiscal year ended May 5, 2007, the Company has recognized \$2.4 million (May 6, 2006 – \$3.5 million) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS ("EIC-159")

This abstract provides guidance on when a conditional asset retirement obligation should be recognized in accordance with CICA Section 3110, "Asset Retirement Obligations." The abstract was applied on a retroactive basis effective in the fourth quarter of fiscal 2006. The abstract requires an entity to recognize a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. A conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement.

FUTURE ACCOUNTING STANDARDS FINANCIAL INSTRUMENTS, HEDGING AND COMPREHENSIVE INCOME

As part of Canada's current move toward harmonization with International Accounting Standards (currently expected to be completed by 2011), the CICA issued three new accounting standards that apply to the Company as of the first day of its 2008 fiscal year.

CICA Section 1530, "Comprehensive Income", introduces a statement of comprehensive income which will be included in interim and annual financial statements. Comprehensive income is comprised of net income and other comprehensive income, and represents the change in equity during a period from transactions and other events with non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income will include unrealized gains and losses on financial assets that are classified as available-for-sale and changes in fair value of the effective portion of cash flow hedges.

CICA Section 3855, "Financial Instruments – Recognition and Measurement", requires that all financial assets be classified as held for trading, available for sale, held-to-maturity or loans and receivables and all financial liabilities as held for trading or as other liabilities. All derivative instruments, including any embedded derivatives that are required to be separated from the host instruments, must be classified as held for trading. Financial assets and liabilities classified as held for trading are measured at fair value with gains and losses during the period recognized in net income in the periods in which they arise. Financial assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income until the underlying financial asset is derecognized or

becomes impaired. Held-to-maturity investments, loans and receivables and other liabilities are measured at amortized cost. Gains or losses on financial assets and liabilities carried at amortized cost are recognized in net income when the financial asset or financial liability is derecognized or impaired.

CICA Section 3865, "Hedges", establishes standards for when and how hedge accounting may be applied. The standard requires that hedges be designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining operation. For a fair value hedge, the gain or loss on the hedging item is recognized in earnings for the period together with the offsetting change on the hedged item attributable to the hedged risk. For a cash flow hedge, as well as a hedge of a net investment in a self-sustaining foreign operation, the effective portion of the unrealized gain or loss on the hedging item is reported in other comprehensive income and subsequently recognized in earnings when the hedged item affects earnings.

These new standards are effective for fiscal year ends beginning after October 1, 2006. Therefore, the Company will adopt these standards effective May 6, 2007. Prior periods presented will not be restated; the opening balance of retained earnings, net of income taxes, will be adjusted by the following:

- The difference between the previous carrying amount and the fair value of financial assets and liabilities designated as held for trading under the fair value option;
- The ineffective portion of the gain or loss on the hedging items in designated cash flow hedging relationships and the total gain or loss on the hedging items in designated fair value hedging relationships;
- The difference between the carrying amount and the fair value of derivatives or non-derivatives that no longer meet the hedging criteria; and
- The fair value of "embedded derivatives" (i.e. clauses in contracts that are in essence derivatives).

The opening balance of "Accumulated other comprehensive income", net of income taxes, will be adjusted by the following:

- The difference between the previous carrying amount and the fair value of assets classified as available for sale;
- The effective portion of the gain or loss on the hedging items that are included in designated cash flow hedging relationships; and
- The accumulated foreign currency translation adjustment on the translation of certain subsidiaries historically accounted for using the current rate method.

The Company has gone through a process of determining the transitional impact on the Fiscal 2008 Consolidated Financial Statements. While the future impact of the new standards on the Company's results of operations, financial position and cash flows cannot be determined at present, as they are partially contingent upon future events, the new standards are not expected to have a material impact on business strategy or business risks.

CICA Section 3070 "Deferred Charges" has been withdrawn with the introduction of CICA Sections 3855, 3865, and 1530 as discussed above.

CICA Section 1506 "Accounting Changes" requires that all companies are permitted to change an accounting policy only when it results in financial statements that provide reliable and more relevant information or results from a requirement under a primary source of Canadian GAAP. This guidance also addresses how to account for a change in accounting policy, estimate or corrections of errors, and establishes enhanced disclosures about their effects on the financial statements. These recommendations are effective for fiscal years beginning on or after January 1, 2007. The Company will implement these recommendations as required on a prospective basis.

CICA Section 3031 "Inventories" which has replaced Section 3030 with the same title was approved in March 2007. The new section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The final standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and are applicable for the Company's first quarter of fiscal 2009. The Company is currently evaluating the impact of this new standard.

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. Management continually evaluates the estimates and assumptions it uses. 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 10 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 2007, the discount rate used for calculation of pension and other benefit plan expense was 5.0 percent and 5.25 percent, respectively (fiscal 2006 – 5.5 percent for both pension and other benefit plans). The expected long-term rate of return on plan assets for pension benefit plans for each of fiscal 2007 was 7.0 percent (fiscal 2006 – 7.0 percent). The expected growth rate in health care costs was 10.0 percent for fiscal 2007 (fiscal 2006 – 10.0 percent). The cumulative growth rate in health care costs to 2016 is expected to be 5.0 percent. The expected future growth rate is evaluated on an annual basis.

The table below outlines the sensitivity of the 2007 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 benefits 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		7.0%		
Impact of: 1% increase		\$ (2.8)		
Impact of: 1% decrease		\$ 2.8		
Discount rate	5.0%	5.0%	5.25%	5.25%
Impact of: 1% increase	\$ (32.6)	\$ 0.4	\$ (17.2)	\$ (0.6)
Impact of: 1% decrease	\$ 36.7	\$ (0.8)	\$ 20.7	\$ 0.7
Growth rate of health care costs ⁽²⁾			10.0%	10.0%
Impact of: 1% increase			\$ 17.4	\$ 1.8
Impact of: 1% decrease			\$ (13.6)	\$ (1.3)

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

(2) Gradually decreasing to 5.0 percent in 2016 and remaining at that level thereafter.

The Company has also assumed that a pending merger of pension plans will be completed. If this merger is not completed, the valuation of the transitional pension asset included in other assets on the balance sheet may need to be re-evaluated.

GOODWILL AND LONG LIVED ASSETS

Goodwill is not amortized and is assessed for impairment at the reporting unit level. This is done, at a minimum, annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the 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 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 judgement. 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. A charge or credit to income tax expense may result in cash payments or receipts.

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 and adjusted to cost and (ii) estimated inventory reductions due to spoilage, shrinkage and allowances, occurring between the last physical inventory count and the balance sheet date.

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, both inventories and operating income may be impacted.

Changes or differences in 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.

Controls and Procedures

Empire's management, with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has reviewed and evaluated the Corporation's disclosure controls and procedures (as that term is defined in Multi-National Instrument 52-109) as of May 5, 2007. Based on that evaluation the CEO and CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective.

Internal Controls Over Financial Reporting

Empire's management, with the participation of the CEO and CFO, has reviewed and evaluated the design of the Corporation's internal controls over financial reporting (as that term is defined in MI 52-109) as of May 5, 2007. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial reporting.

As a result of this evaluation, management is in the process of remediating several control deficiencies. However, these deficiencies, even in aggregate, are not material in nature. Therefore, Empire's CEO and CFO have concluded that the design of its internal controls over financial reporting was effective.

In addition, management has evaluated whether there were changes in our internal controls over financial reporting during the interim period ended May 5, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. While there are no such changes, we continue to undergo a system transition initiative that will further enhance our internal controls.

Related Party Transactions

The Company rents premises from Crombie REIT. In addition, Crombie REIT provides administrative and management services to the Company. The rental payments are at fair value and the charges incurred for administrative and management services are on a cost recovery basis. The Company has non-interest bearing notes payable to Crombie REIT in the amount of \$33.1 million.

On October 2, 2006, the Company sold two commercial properties to Crombie REIT, for cash proceeds of \$32.4 million, which was fair market value. Since the sale was to an equity accounted investment, no gain was recorded on the sale.

Guarantees and Commitments

The following illustrates the Company's significant contractual obligations.

GROSS OBLIGATIONS EXCLUDING LEASE INCOME

(\$ in millions)	2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt	\$ 72.3	\$ 74.2	\$ 33.8	\$ 38.8	\$ 27.1	\$ 579.2	\$ 825.4
Capital leases	10.2	7.7	7.2	6.5	5.6	12.5	49.7
Operating leases	249.1	230.6	219.0	207.2	195.8	1,392.1	2,493.8
Total contractual obligations	\$ 331.6	\$ 312.5	\$ 260.0	\$ 252.5	\$ 228.5	\$ 1,983.8	\$ 3,368.9

OPERATING LEASES, NET OF EXPECTED LEASE INCOME RECEIVED BY THE COMPANY

(\$ in millions)	2008	2009	2010	2011	2012	Thereafter	Total
	\$ 187.1	\$ 164.7	\$ 157.0	\$ 151.1	\$ 144.0	\$ 1,073.5	\$ 1,877.4

FRANCHISE AFFILIATES

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 5, 2007, these loans amounted to approximately \$2.9 million (May 6, 2006 – \$1.3 million).

Sobeys also has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee should a franchise affiliate be unable to fulfill its lease obligation Sobeys would be required to fund the difference of the lease commitments up to a maximum of \$100.0 million on a cumulative basis. Sobeys approves each of the contracts.

The aggregate, annual, minimum rent payable under the guaranteed equipment leases for fiscal 2008 is approximately \$29.4 million. The guaranteed lease commitments over the next five fiscal years are:

(\$ in millions)	Guaranteed Lease Commitments
2008	\$ 29.4
2009	25.5
2010	21.7
2011	17.0
2012	6.4
Thereafter	\$ –

OTHER

At May 5, 2007, the Company was contingently liable for letters of credit issued in the aggregate amount of \$48.5 million (May 6, 2006 – \$47.6 million).

Upon entering into the lease of its new 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 13 years with an aggregate obligation of \$40.4 million (May 6, 2006 – \$43.3 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 harmless from any liability it may incur pursuant to its guarantee.

Designation for Eligible Dividends

The new dividend regime for the favourable tax treatment of "eligible dividends" has been brought into effect by Bill C-28 which came into effect on February 21, 2007. Passage of this bill has important implications for corporations paying eligible dividends. To be eligible dividends, dividends paid:

- On or after February 21, 2007, must be designated as such at the time of payment;
- Before February 21, 2007, can be designated as such up to May 22, 2007.

Empire has, in accordance with the administrative position of the Canada Revenue Agency, 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 the 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 were \$13.6 million. 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 set-out 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 and certain subsidiaries are presently under audit by CRA and certain provincial taxing authorities for fiscal years 2001 through 2006. The principal matters under audit are:

- a) The tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001;
- b) The tax treatment of gains realized on the sale of shares in Delhaize America Inc. in fiscal years 2001 and 2002; and
- c) The taxation of income from certain of the Company's real estate investments for fiscal years 2003 to 2006.

Reassessments have been received in respect of the sale of shares of Hannaford. In the event that the tax authorities are successful in respect of the Hannaford transaction, which the Company believes is unlikely, the maximum potential exposure in excess of provisions taken is approximately \$30 million.

The Company has appealed the reassessments in respect of the sale of the Hannaford shares. The Company expects that it will be substantially successful on its appeals of each of these reassessments. The Company also believes that the ultimate resolution of these matters will not, in any event, have a material impact on earnings because it has made adequate provisions for each of these matters. Should the ultimate outcome materially differ from the provisions established, the effective tax rate and earnings of the Company could be materially affected, negatively or positively, in the period in which the matters are resolved.

In the third quarter of fiscal 2007, Sobeys was named as a defendant in a lawsuit brought by beneficiaries of a multi-employer pension plan. The lawsuit alleges mismanagement of certain pension plan investments by the trustees of the pension plan and seeks, among other remedies, payment of \$1 billion in damages from the trustees and the contributing employers, of which Sobeys is one of approximately 440. Sobeys played no role in the management of the pension plan and intends to contest the lawsuit. Accordingly, Sobeys has not recorded in its statement of earnings any amount related to this lawsuit.

The Company entered into an agreement with Crombie REIT to fund certain property redevelopments and originally issued and recorded a note payable to Crombie REIT in the amount of \$39.6 million related thereto. The Company has agreed to pay all additional costs and expenses required for the redevelopment of those properties. In the event that the redevelopment costs are less than \$39.6 million, the savings will be paid to the Company.

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.

Risk Management

Through its operating companies and its investment portfolio, 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.

During fiscal 2006, Sobeys adopted an annual enterprise risk management assessment which is overseen by the Company's Leadership Committee and reported to the Board 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 Sobeys.

COMPETITION

Empire's food retail business, through 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 revenues and profit margins as a result of increased competitive intensity. To mitigate this risk, Sobeys' strategy is to be geographically diversified with the benefits of national scale, 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, sizes, and banners, to meet anticipated needs of its customers in order to enhance profitability by region and by target market.

Empire's real estate operations, through ECL, compete with numerous other developers, managers, and owners of real estate properties in seeking tenants and new properties for future development. The existence of competing developers, managers and owners could affect our real estate group's ability to lease space in its properties and on rents charged or concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect revenues and cash flows.

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. During fiscal 2007, our real estate operations encountered generally positive economic conditions with relatively stable occupancy levels and healthy rental renewal rates. During fiscal 2007, capitalization rates remained low which impacted the number of potential properties that generate an attractive return on investment.

FINANCIAL

The Company employs numerous professionally accredited accountants throughout its finance group.

Empire and its operating companies have adopted a number of key financial policies to manage interest rate risk and foreign exchange risk. Risks can also arise from changes in the rules or standards governing accounting or financial reporting.

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 Empire's consolidated debt is at fixed rates and accordingly there is limited exposure to interest rate fluctuations.

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 generally at a fixed interest rate, and therefore, the Company's exposure to interest rate cash flow risk during the term of the debt is minimal.

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 more than 21 distribution centres across the country for

the food division. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2008. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a steadfast 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 and retain its employees could affect the Company's future performance.

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 is working with industry and government sources to develop a pandemic preparedness plan.

Responsibility for business continuity planning has been designated to Sobeys' Leadership Committee.

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.

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

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

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 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 storage and distribution of 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 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. Sobeys' Board of Directors has 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 as well as for its commercial property and residential development operations, with direct 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.

OPERATIONS

The success of Empire is closely tied to the performance of Sobeys' retail stores. Franchise affiliates operate approximately 56 percent of these retail stores. Sobeys relies on the franchise affiliates and corporate store management to successfully execute retail programs and strategies.

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.

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

Empire does not directly carry out foreign operations, however, Sobeys and ECL do have certain foreign operations. Sobeys' foreign operations are limited to a small number of produce brokerage offices based in the United States.

ECL, through its interest in Genstar, has certain residential land development in the California market but on a limited scale. 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.

With respect to portfolio investments denominated in U.S. dollar currency, to mitigate exposure to currency fluctuations, the Company has hedged a portion of its foreign currency exposure through the use of U.S. forward currency contracts. At May 5, 2007 the ratio of U.S. dollar debt to the market value of U.S. equities was approximately 70.0 percent.

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 which employees and Directors 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.

EQUITY PRICE RISK

The carrying values of the investments in Empire's investment portfolio are based on cost; however the realizable value of each investment and therefore the portfolio is based on market prices and is subject to market price fluctuations. Empire has a disciplined, long-term approach to selecting quality investments and has been successful in generating above market portfolio returns. While portfolio returns may not match those of the prior year, or exceed median manager returns, management will continue to manage the portfolio prudently to ensure appropriate diversification and liquidity.

Subsequent Events

(a) On April 26, 2007, Empire and Sobeys jointly announced that they had entered into an arrangement agreement (the "Arrangement") pursuant to which Empire would acquire all of the outstanding common shares of Sobeys that it did not then own at a price of \$58.00 per share. The transaction valued the Sobeys shares not then owned by Empire at approximately \$1.06 billion.

The Arrangement required various approvals to comply with applicable corporate and securities laws: The Sobeys shareholders approved the Arrangement at a special shareholders' meeting held on June 9, 2007 by the requisite majority; the Supreme Court of Nova Scotia gave its sanction to the Arrangement on June 13, 2007; the Arrangement became effective upon registration of the final Court order with the Nova Scotia Registry of Joint Stock Companies at the close of business on June 15, 2007, at which time the Company acquired all the outstanding shares of Sobeys that it did not previously own. Subsequently, the Sobeys common shares ceased trading on the Toronto Stock Exchange, and were de-listed at the close of business on June 18, 2007.

The acquisition was financed by funds from the sale of certain portfolio investments for proceeds of \$278 million and advances of \$784 million under new credit facilities (the "Credit Facilities"). The Credit Facilities consist of a \$950 million unsecured revolving credit facility maturing on June 8, 2010 (subject to annual extensions at the request of the Company) and a \$50 million unsecured non-revolving credit facility maturing June 30, 2007. 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 BA rate loans or LIBOR loans, the margin applicable to the financial covenants.

On June 18, 2007, Empire entered into two delayed fixed rate interest swaps. The first swap in an amount of \$200.0 million is for a period of three years at a fixed interest rate of 4.998 percent. The second swap in an amount of \$200.0 million is for a period of five years at a fixed interest rate of 5.051 percent. Both swaps became effective on July 23, 2007.

On June 27, 2007, pursuant to the terms of the Credit Facilities, Empire and Sobeys filed notice with the lenders requesting the establishment of a new \$300.0 million five-year credit facility in favour of Sobeys at the same interest rate as the Credit Facilities. On July 23, 2007, Sobeys drew down \$300.0 million from the new credit facility, the proceeds of which were used to pay a dividend to Empire. Empire used the proceeds from the dividend to reduce its indebtedness under the Credit Facilities and the Credit Facilities were reduced accordingly. On that date, Empire transferred the second swap to Sobeys.

(b) On July 16, 2007, the Company announced that Sobeys and Thrifty Foods ("Thrifty") have entered into an agreement that will see Sobeys purchase the British Columbia-based grocery retailer. The transaction is based on an enterprise value of \$260.0 million and is subject to adjustments for, among other items, assumed liabilities and working capital at closing. Thrifty's business includes 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The deal is expected to close during the Company's second quarter following receipt of regulatory approval and completion of due diligence. The transaction is expected to be financed with cash and available banking facilities.

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 retail, real estate and related businesses. While the Company's core businesses are well established and profitable in their own right, the diversification they offer Empire by both business line and by market area served is considered by management to be an additional source of strength. 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.

FOOD RETAILING DIVISION

Sobeys intends to 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.

In fiscal 2008, Sobeys intends to advance its business process and information systems installation plan for the Company by focusing on the significant opportunity to upgrade information processing and decision support capabilities and improve efficiencies in its Western region. The system and processes that are being implemented have been developed over several years and are currently employed in Sobeys' Ontario and Atlantic regions. These initiatives will simplify, standardize and streamline the "back shop", in support of Sobeys' food-focused strategy. This move will leverage technology investments, improve efficiency and lower costs over the long term.

The approach taken for this set of initiatives will be guided and informed by Sobeys' previous experience. The complexity of this comprehensive set of initiatives, which impacts every aspect of the business, requires that a significant investment be made to manage the risk of implementation but also to prepare employees to secure and sustain the benefits of more efficient processes and systems after they have been implemented. The necessary re-training of thousands of employees in Ontario continues and will continue through the first six months of fiscal 2008. The implementation costs as well as training costs for thousands of employees in the Western region will be finalized during fiscal 2008.

REAL ESTATE DIVISION

Over the next year, Empire's real estate management group intends to continue its policy of maximizing and prudently reinvesting its cash flow to further strengthen and diversify its portfolio of residential and commercial properties.

Empire's real estate management group expects overall retail occupancy levels to remain strong during fiscal 2008 as a result of the diligence of the leasing team and general economic conditions. Management looks forward to continuing its strong relationship with Sobeys and to pursuing attractive opportunities to jointly develop locations with Sobeys.

As previously advised, Empire is continuing to explore the potential sale of some or all of the SLP commercial real estate portfolio. Pursuant to a Non-Competition Agreement between Empire and Crombie REIT, any property sold from SLP must first be offered to Crombie REIT. Any potential transaction, if deemed appropriate, would be subject to customary Board approval.

Non-GAAP Financial Measures

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

- Operating income or EBIT is calculated as operating earnings before minority interest, interest expense and income taxes.
- EBITDA is calculated as EBIT plus depreciation and amortization.
- Operating earnings is calculated as net earnings before capital gains and other items.
- Funds from operations are calculated as operating earnings plus depreciation and amortization.
- Interest coverage is calculated as operating income divided by interest expense.
- 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.
- Adjusted debt is funded debt plus the capitalized value of net operating lease payments, which is calculated as six times net annual operating lease payments.
- Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords.
- Same-store sales are sales from stores in the same locations in both reporting periods.

The following table reconciles Empire's funded debt and total capital to GAAP measures reported in the unaudited interim period balance sheets as at May 5, 2007, May 6, 2006 and May 7, 2005, respectively:

(\$ in millions)	May 5, 2007	May 6, 2006	May 7, 2005
Bank indebtedness	\$ 30.1	\$ 98.6	\$ 219.4
Long-term debt due within one year	82.5	95.4	247.0
Liabilities relating to assets held for sale	6.8	7.1	–
Long-term debt	792.6	707.3	727.4
Funded debt	912.0	908.4	1,193.8
Total shareholders' equity	2,135.4	1,965.2	1,709.0
Total capital	\$ 3,047.4	\$ 2,873.6	\$ 2,902.8

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

Dated: June 28, 2007
Stellarton, Nova Scotia, Canada