

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAY 3, 2008 (In millions except share capital)

Note 1 Summary of Significant Accounting Policies

Basis of consolidation

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

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

Changes in accounting policies

Adopted during fiscal 2008

Accounting changes

In July 2006, the Canadian Institute of Chartered Accountants ("CICA") issued section 1506 of the CICA Handbook, "Accounting Changes", which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and correction of errors. These changes came into effect for fiscal periods beginning on or after January 1, 2007 and were applicable as of the Company's first quarter of fiscal 2008.

Financial instruments

On May 6, 2007, the Company implemented the CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", 3251, "Equity", and 3861, "Financial Instruments – Disclosure and Presentation". These standards have been applied without restatement of prior periods. The transitional adjustments

resulting from these standards were recognized in the opening balances of retained earnings and accumulated other comprehensive income.

Financial instruments, recognition and measurement

Section 3855 requires the Company to initially recognize all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value adjusted on transition as appropriate, and measured subsequently in accordance with the classification chosen. Non-financial derivatives must be recorded at fair value on the consolidated balance sheet unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

This standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purpose of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

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

Other balance sheet accounts, including, but not limited to, inventories, prepaid expenses, investments (at equity), property and equipment, assets held for sale, intangibles, goodwill, current and long-term future income taxes, employee future benefits obligation and minority interest are not within the scope of the new accounting standards as they are not financial instruments.

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

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Under an election permitted by the new standard, management reviewed contracts entered into or modified subsequent to May 3, 2003 and determined that the Company does not currently have any significant embedded derivatives in its contracts that require separate accounting treatment.

Section 3855 also requires that obligations undertaken through issuance of a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline 14, "Disclosure of Guarantees", be recognized at fair value at inception. No subsequent re-measurement at fair value is required unless the financial guarantee qualifies as a derivative. Management reviewed and determined that identified guarantees were immaterial.

The fair value of a financial instrument is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. To estimate the fair value of each type of financial instrument various market value data and other valuation techniques were used as appropriate. The fair value of cash approximated its carrying value. The fair value of currency swaps was estimated based on discounting of the forward rate at the reporting date compared to the forward rate in the contract. The fair value of interest rate swaps was estimated by discounting net cash flows of the swaps using forward interest rates for swaps of the same remaining maturities. The fair value of energy contracts was estimated based on changes in forward commodity rates.

Hedges

Section 3865, "Hedges", replaces Accounting Guideline 13, "Hedging Relationships". The requirements for identification, designation, documentation and assessment of effectiveness of hedging relationships remain substantially unchanged. Section 3865 addresses the accounting treatment of qualifying hedging relationships and the necessary disclosures and also requires all derivatives in hedging relationships to be recorded at fair value.

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange rates, variable interest rates and energy prices. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the

ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income relating to the hedge is carried forward until the hedged item is recognized in net earnings. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income is immediately reclassified to net earnings.

Significant derivatives include the following:

- (1) Foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.
- (2) Electricity contracts to manage the cost of electricity designated as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated other comprehensive income is reclassified into other income/expense when the product containing the hedged item impacts earnings. Hedge ineffectiveness was immaterial for the current fiscal year.
- (3) Interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's debt portfolio. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates.

Comprehensive income

In accordance with Section 1530, "Comprehensive Income", the Company has reported a new financial statement entitled "Consolidated Statements of Comprehensive Income", which is comprised of net earnings and other comprehensive income. Other comprehensive income represents the change in shareholders' equity from transactions and other events from non-owner sources and includes unrealized gains and losses on financial assets that are classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The accumulated other comprehensive income (i.e. the portion of comprehensive income not already included in net earnings) is being presented as a separate line in shareholders' equity. In accordance with the new standard, \$0.6 relating to unrealized losses resulting from the translation of self-sustaining foreign operations which had previously been classified as cumulative translation adjustment within shareholders' equity is now presented within accumulated other comprehensive income.

Equity

Section 3251, "Equity", which replaced Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period and requires the Company to present separately equity components and changes in equity arising from: i) net earnings; ii) other comprehensive income; iii) other changes in retained earnings; iv) changes in contributed surplus; v) changes in share capital; and vi) changes in reserves.

Financial instruments – disclosure and presentation

Section 3861, "Financial Instruments – Disclosure and Presentation", which replaces 3860, of the same title, establishes standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

The following table summarizes the transition adjustments recorded upon implementation:

	Transition Adjustments	
Consolidated Balance Sheet		
Investments	\$	94.4
Other assets		(4.5)
Other liabilities		2.5
Long-term debt		2.7
Future income taxes		(18.5)
Minority interest		0.6
Accumulated other comprehensive income		(77.2)

Deferred charges

The Company adopted CICA Section 3855 effective as of the first quarter of fiscal 2008. Concurrent with the issuance of this section, Section 3070, "Deferred Charges", was withdrawn. As a result, the Company reviewed its deferred costs classifications included with other assets and determined the following changes were necessary:

- ▶ **Deferred store marketing** – Deferred store marketing costs, primarily comprised of store renovation and expansion costs, were reclassified and included with equipment, fixtures and vehicles as part of the Company's property and equipment balance sheet group. Prior year balances were reclassified which resulted in an increase in property and equipment and a decrease in other assets of \$106.2 at May 5, 2007 as well as an increase in depreciation expense and decrease in cost of sales, selling and administrative expenses of \$25.3 for the year ended May 5, 2007. There is no impact on net earnings or earnings per share as a result of this change.
- ▶ **Deferred repositioning costs** – Effective for the first quarter of fiscal 2008, the Company changed its accounting policy for the treatment of certain deferred costs associated with major repositioning or branding efforts of the Company. Due to the withdrawal of the primary source of GAAP, Section 3070, "Deferred Charges", the Company looked to

other sources of existing and proposed GAAP for guidance in determining its future policy for such costs. Based on this review, the Company determined, in setting the new policy, that it would be more appropriate to expense these types of costs in the period incurred as it provides more relevant information on expenditures associated with repositioning and branding efforts.

This change in accounting policy was applied retrospectively resulting in a \$9.1 decrease in other assets, a \$3.2 decrease in long-term future tax liabilities, and a \$4.3 decrease in earnings (net of minority interest of \$1.6) at May 5, 2007. The effect for the year ended May 5, 2007 is a \$9.1 increase in cost of sales, selling and administrative expenses, a \$3.2 decrease in income taxes and a \$0.06 decrease in basic and diluted earnings per share. The effect for the year ended May 3, 2008 was a \$3.6 decrease in cost of sales, selling and administrative expenses, a \$1.2 increase in income taxes and an increase in basic and diluted earnings of \$0.04 per share.

Adopted during fiscal 2007

Vendor consideration

During the first quarter of fiscal 2007, the Company implemented, on a retroactive basis, Emerging Issues Committee Abstract 156 ("EIC-156"), "Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products)". This abstract requires a vendor to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's products or services and reflect it as a reduction of revenue when recognized in the statement of earnings.

Prior to the implementation of EIC-156, the Company recorded certain sales incentives paid to independent franchisees, associates and independent accounts in cost of sales, selling and administrative expenses on the statement of earnings. Accordingly, the implementation of EIC-156 on a retroactive basis resulted in a reduction in both sales and cost of sales, selling and administrative expenses. As reclassifications, these changes did not impact net earnings or earnings per share.

Future changes in accounting policies

Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which has replaced existing Section 3030 with the same title. 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. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and is applicable for the Company's first quarter of fiscal 2009. The Company has evaluated the impact of this new standard and does not expect the adoption of this standard to have a significant impact on its financial statement disclosures and statement of earnings.

Capital disclosures

In October 2006, the CICA issued Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and is applicable for the Company's first quarter of fiscal 2009. The Company does not expect that the adoption of this standard will have a significant impact on its financial statement disclosures.

Financial instruments – disclosure and financial instruments – presentation

Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation", replace Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments between liabilities and equity. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and are applicable for the Company's first quarter of fiscal 2009. The Company does not expect the adoption of these standards to have a significant impact on its financial disclosures and results of operations.

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is applicable for the Company's first quarter of fiscal 2010. The Company is currently evaluating the impact of this new standard.

International financial reporting standards

In January 2006, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under International Financial Reporting Standards. This decision establishes standards for financial reporting with increased clarity and consistency in the global marketplace. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and are applicable for the Company's first quarter of fiscal 2012. The Company is currently evaluating the impact of these new standards.

Cash and cash equivalents

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

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out or a moving average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using moving average cost or the retail method. The retail method uses the anticipated selling price less normal profit margins, substantially on an average cost basis. Real estate inventory of residential properties is carried at the lower of cost and net realizable value.

Property and equipment

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

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

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

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

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of property and equipment may not be recoverable. The assets are impaired when the carrying value exceeds the sum of the undiscounted future cash flows expected from use and eventual disposal. If property and equipment is determined to be impaired, the impairment loss is measured at the excess of the carrying value over fair value.

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

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

Capitalization of costs

(a) Construction projects

Certain subsidiary companies and joint ventures capitalize interest during the construction period until the project opening date. The amount of interest capitalized to construction in progress in the current year was \$1.5 (2007 – \$1.5).

(b) Commercial properties

Certain subsidiaries and joint ventures capitalize the direct carrying and operating costs applicable to the unleased areas of each new project for a reasonable period from the project opening date until a certain level of occupancy is reached. No amounts were capitalized in fiscal 2007 or 2008.

(c) Development properties and land held for future development

A subsidiary company capitalizes interest, real estate taxes and other expenses to the extent that they relate to properties for immediate development. To the extent that the resulting carrying value exceeds its fair market value, the excess is charged against income. The carrying costs on the balance of properties held for future development are capitalized as incurred. An amount of \$0.8 (2007 – \$0.7) was capitalized during the year.

Leases

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

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

Goodwill

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

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

Intangibles

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

Franchise rights/agreements	10 – 20 years
Brand names	10 – 15 years
Patient files	10 years
Other	5 – 23 years

Assets held for sale

Certain land and buildings have been listed for sale and reclassified as "Assets held for sale" in accordance with CICA Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations". These assets are expected to be sold within a twelve month period. Assets held for sale are valued at the lower of book value and fair value less cost of disposal. Liabilities assumed upon sale of assets or debts to be repaid as part of a sale transaction are also classified as "Liabilities relating to assets held for sale".

Store opening expenses

Opening expenses of new stores and store conversions are written off on a straight-line basis during the first year of operation.

Future income taxes

The difference between the tax basis of assets and liabilities and their carrying value on the balance sheet is used to calculate future tax assets and liabilities. The future tax assets and liabilities have been measured using substantively enacted tax rates that will be in effect when the differences are expected to reverse.

Deferred revenue

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

Foreign currency translation

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

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

Revenue recognition

Food sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company and consolidated VIEs, and revenue from sales to non-VIE franchised stores, affiliated stores and independent accounts. Revenue received from non-VIE franchised stores, affiliated stores and independent accounts is mainly derived from the sale of product. The Company also collects franchise fees under two types of arrangements. Franchise fees contractually due based on the dollar value of product shipped are recorded as revenue when the product is shipped. Franchise fees contractually due based on the franchisee's retail sales are recorded as revenue weekly upon invoicing based on the franchisee's retail sales. Real estate revenue is recognized in accordance with the lease agreements with tenants on a straight-line basis.

Pension benefit plans and other benefit plans

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

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

The impact of plan amendments and increases in the obligation related to past service is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members, except for the Company's Supplemental Executive Retirement Plan for which the impact is amortized over no more than 5 years. The actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members.

Vendor allowances

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. The Company recognizes these allowances as a reduction of cost of sales, selling and administrative expenses and related inventories in accordance with EIC-144 "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor". Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. As of the year ended May 3, 2008, the Company has recognized \$5.1 (2007—\$2.4) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

Use of estimates

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

Earnings per share

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

Note 2 Privatization of Sobeys Inc.

On April 26, 2007, the Company and Sobeys jointly announced that they had entered into an arrangement agreement (the "Arrangement") pursuant to which the Company 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 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 delisted at the close of business on June 18, 2007.

The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements since the acquisition date. Management carried out a detailed analysis and changes were made to the preliminary allocation of the excess consideration paid over net assets acquired as disclosed in previous quarters of fiscal 2008. The measurement and allocation of tangible assets, finite and infinite intangible assets, and goodwill was completed during the fourth quarter of fiscal 2008.

The final purchase price allocation, incorporating management's assessment of fair value, is as follows:

Consideration	
Cash	\$ 1,061.7
Acquisition costs	4.0
Total consideration paid	1,065.7
Carrying amount of net assets acquired	576.5
Excess consideration paid over net assets acquired	\$ 489.2
Allocation of excess consideration paid over net assets acquired	
Property and equipment	\$ 81.7
Accrued benefit asset	(13.1)
Employee future benefits obligation	(3.8)
Amortizable intangible assets	49.9
Indefinite-life intangible assets	243.7
Goodwill	165.2
Future income taxes	(35.0)
Accumulated other comprehensive loss	0.6
	\$ 489.2

The acquisition was financed by funds of \$278.0, received primarily from sale of certain portfolio investments, and by advances of \$787.7 under new credit facilities (see Note 12).

Note 3 Sale of Property to Crombie REIT

On April 22, 2008, the Company's real estate segment sold 61 commercial properties to Crombie Real Estate Investment Trust ("Crombie REIT"). Included in the proceeds were additional Class B Units of Crombie REIT (which are convertible on a one for one basis into Units of Crombie REIT). The investment in Class B Units will maintain the Company's interest in Crombie

REIT at 47.8%. The Company's investment in Crombie REIT is accounted using the equity method. Under Canadian GAAP, the gain on sale was not included in net earnings; rather the gain (net of income taxes) reduced the carrying value of the Company's equity investment in Crombie REIT. Details of the sale are as follows:

Proceeds		
Cash	\$	373.5
Investment in Crombie REIT		55.0
		428.5
Book value of property and equipment sold		238.9
Early extinguishment of long-term debt		18.5
Transaction costs		6.5
Other costs		12.5
		276.4
Gain before income taxes and deferral		152.1
Income taxes		
Current		27.0
Future		(19.2)
		7.8
Gain before deferral		144.3
Deferral of gain		(144.3)
Net gain	\$	Nil

As part of the transaction, Sobeys entered into new lease agreements (the "Sobeys Leases") with respect to their occupancy in a portion of the 61 commercial properties. The Sobeys Leases have terms of between 17 and 23 years (except for 3 leases which have an outside date of 12 years) (the "Outside Date"). Each Sobeys Lease is based on an initial term of two years and thereafter alternating between successive

periods of three years and two years until the applicable Outside Date. The Outside Date may be extended at Sobeys' option by up to four consecutive further periods of five years each. The minimum rents under the Sobeys Leases will range from \$8 per square foot to \$14 per square foot with rental increases every five years.

Note 4 Earnings Per Share

Earnings applicable to common shares is comprised of the following:

	2008	2007 Restated (Note 1)
Operating earnings	\$ 242.8	\$ 200.1
Capital gains and other items, net of income taxes of \$14.7 (2007 - \$1.4)	73.0	5.7
Net earnings	315.8	205.8
Preferred share dividends	(0.3)	(0.4)
Earnings applicable to common shares	\$ 315.5	\$ 205.4

Earnings per share is comprised of the following:

	2008	2007 Restated (Note 1)
Operating earnings	\$ 3.69	\$ 3.05
Capital gains and other items	1.11	0.09
Basic earnings per share	\$ 4.80	\$ 3.14
Operating earnings	\$ 3.69	\$ 3.04
Capital gains and other items	1.11	0.09
Diluted earnings per share	\$ 4.80	\$ 3.13

Note 5 Investments, at Equity

	May 3, 2008	May 5, 2007
Wajax Income Fund (27.6% interest)	\$ 31.6	\$ 32.2
Crombie REIT (47.8% interest)	9.5	109.3
U.S. residential real estate partnerships	0.3	1.3
	\$ 41.4	\$ 142.8

The Company's carrying value of its investment in Wajax Income Fund is as follows:

	May 3, 2008	May 5, 2007
Balance, beginning of year	\$ 32.2	\$ 33.1
Equity earnings	19.7	20.6
Share of comprehensive loss	(0.2)	-
Distributions received	(20.1)	(21.5)
Balance, end of year	\$ 31.6	\$ 32.2

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

	May 3, 2008	May 5, 2007
Balance, beginning of year	\$ 109.3	\$ 112.8
Equity earnings	13.6	11.6
Share of comprehensive loss	(6.8)	-
Distributions received	(17.0)	(15.1)
Interest received in Crombie REIT	55.0	-
Deferral of gains on sale of property	(144.6)	-
Balance, end of year	\$ 9.5	\$ 109.3

Note 6 Mortgages, Loans and Other Receivables

	May 3, 2008	May 5, 2007
Loans receivable	\$ 58.1	\$ 62.7
Mortgages receivable	0.6	0.6
Other	16.3	16.3
	75.0	79.6
Less amount due within one year	18.7	14.5
	\$ 56.3	\$ 65.1

Loans receivable

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

Note 7 Other Assets

	May 3, 2008	May 5, 2007
Deferred financing costs	\$ 0.6	\$ 7.0
Deferred purchase agreements	35.9	31.1
Accrued benefit asset (Note 24)	58.2	68.4
Asset-backed commercial paper	22.5	-
Restricted cash	3.9	5.7
Derivative assets	2.3	-
Other	52.1	39.5
	\$ 175.5	\$ 151.7

Asset-backed commercial paper

As of May 3, 2008, the Company held third-party asset-backed commercial paper ("ABCP") with an original cost of \$30.0 that was in default. The ABCP was rated by the Dominion Bond Rating Service ("DBRS") as R-1 (high), the highest credit rating for commercial paper since the ABCP are backed by AAA (high) rated assets. The \$30.0 of ABCP held by the Company is entirely made up of collateralized debt obligations. Collateralized debt obligations are a type of asset-backed security that is created by a portfolio of fixed-income assets which may include pools of bonds, credit card debt, commercial mortgage-backed securities and other loans.

In the second quarter of fiscal 2008, a global disruption in the market for such commercial paper resulted in a constraint on the liquidity of ABCP. DBRS placed certain of the ABCP "Under Review with Developing Implications" following an announcement on August 16, 2007 that a consortium representing banks, asset providers and major investors had agreed in principle to a long-term proposal and interim

agreement regarding the ABCP (commonly referred to as "the Montreal Proposal"). On September 6, 2007 a pan-Canadian committee ("the Committee") consisting of major investors was formed to oversee the proposed restructuring process of the ABCP. As of May 3, 2008, all of the ABCP held by the Company were part of the Montreal Proposal. Under this proposal, the affected ABCP would be converted into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets. The Montreal Proposal called for the investors to continue to roll their ABCP during the standstill period.

On December 23, 2007, a formal restructuring proposal was established to address the global disruption experienced with third-party ABCP. On April 25, 2008, note holders voted in favour of the restructuring proposal, which will provide investors with new long-term notes that will more closely match the maturity dates of the underlying assets and the cash flows they are expected to generate and was approved on June 5, 2008 by the Ontario Superior Court of Justice.

On March 20, 2008, the Committee issued an Information Statement containing details about the proposed restructuring. Based on this and other public information it is estimated that the \$30.0 of ABCP in which the Company has invested in is represented by a combination of leveraged collateralized debt, synthetic assets and traditional securitized assets and the Company will, on restructuring, receive replacement senior Class A-1 and Class A-2 and subordinate Class B and Class C long-term floating rate notes with maturities of approximately eight years and nine months.

The Company expects to receive replacement notes with par values as follows:

Class A-1	\$	8.2
Class A-2		17.8
Class B		3.1
Class C		0.9
	\$	30.0

The replacement notes are expected to obtain an AA rating while the replacement subordinate notes are likely to be unrated.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at May 3, 2008, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions, prevailing yields, credit spreads and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee and the risks associated with the long-term floating rate notes.

Interest rates and credit losses vary by each of the different replacement long-term floating rate notes to be issued as each has different credit ratings and risks. Interest rates and credit losses also vary by the different probable cash flow scenarios that have been modeled.

Discount rates vary dependent upon the credit rating of the replacement long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. An increase in the estimated discount rates of 1 percent would reduce the estimated fair value of the Company's investment in ABCP by approximately \$5.0.

Maturities vary by different replacement long-term floating rate notes as a result of the expected maturity of the underlying assets.

These investments were initially and continue to be classified as held-to-maturity instruments by the Company and are carried at amortized cost. Due to the lack of liquidity and a yield on these instruments, a pre-tax impairment loss of \$7.5 (25 percent of the original cost) was recorded during fiscal 2008. It is possible that the amount ultimately recovered may differ from the estimate. The Company continues to investigate the implications of the default and the remedies available. In addition, these investments have been reclassified as long-term other assets rather than current assets due to the uncertainty as to the timing of collection.

Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's near term earnings.

The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third party ABCP liquidity issue.

Cash flow hedges

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

Note 8 Property and Equipment

	Cost	Accumulated Depreciation	May 3, 2008 Net Book Value
Food retailing segment			
Land	\$ 261.6	\$ -	\$ 261.6
Land held for development	61.7	-	61.7
Buildings	839.0	206.6	632.4
Equipment, fixtures and vehicles	2,281.4	1,449.8	831.6
Leasehold improvements	448.2	253.4	194.8
Construction in progress	164.4	-	164.4
Assets under capital leases	99.3	42.7	56.6
	4,155.6	1,952.5	2,203.1
Real estate and other segments			
Land	6.9	-	6.9
Land held for development	63.4	-	63.4
Buildings	63.9	30.2	33.7
Equipment	76.9	37.3	39.6
Leasehold improvements	56.3	15.5	40.8
Construction in progress	10.0	-	10.0
Petroleum and natural gas costs	82.1	22.3	59.8
	359.5	105.3	254.2
Total	\$ 4,515.1	\$ 2,057.8	\$ 2,457.3

	Cost	Accumulated Depreciation	May 5, 2007 Net Book Value Restated (Note 1)
Food retailing segment			
Land	\$ 188.7	\$ -	\$ 188.7
Land held for development	93.1	-	93.1
Buildings	673.2	161.7	511.5
Equipment, fixtures and vehicles	2,012.3	1,256.7	755.6
Leasehold improvements	397.9	243.9	154.0
Construction in progress	109.3	-	109.3
Assets under capital leases	83.1	34.5	48.6
	3,557.6	1,696.8	1,860.8
Real estate and other segments			
Land	78.8	-	78.8
Land held for development	26.8	-	26.8
Buildings	377.3	102.2	275.1
Equipment	72.7	32.6	40.1
Leasehold improvements	52.4	12.1	40.3
Construction in progress	21.8	-	21.8
Petroleum and natural gas costs	78.7	13.3	65.4
	708.5	160.2	548.3
Total	\$ 4,266.1	\$ 1,857.0	\$ 2,409.1

Note 9 Assets Held for Sale

Included in assets held for sale are commercial properties from the various segments with a net carrying value of \$60.3 (2007 – \$24.1). Included in liabilities related to these assets

held for sale is \$6.4 (2007 – \$6.8). These assets are listed for potential sale to outside parties and it is expected that these properties will be disposed of in the next twelve months.

Note 10 Intangible Assets

	May 3, 2008	May 5, 2007
Brand names	\$ 199.1	\$ 0.5
Franchise rights/agreements	36.2	20.4
Patient files	18.8	9.6
Private labels	59.5	–
Other	33.2	7.7
	\$ 346.8	\$ 38.2

Note 11 Bank Indebtedness

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

On November 15, 2007, Sobeys established and utilized a new unsecured non-revolving credit facility of \$30.0 which matured on May 15, 2008 and subsequently extended to August 15, 2008. The interest rate is floating and may be tied to the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR").

Note 12 Long-term Debt

	May 3, 2008	May 5, 2007
	Total	Total
First mortgage loans, average interest rate 9.8%, due 2008-2026	\$ 72.2	\$ 155.6
Medium Term Notes, interest rate 5.8%, due October 6, 2036	125.0	125.0
Medium Term Notes, interest rate 6.1%, due October 29, 2035	175.0	175.0
Medium Term Notes, interest rate 7.2%, due February 26, 2018	100.0	100.0
Debentures, average interest rate 10.3%, due 2008-2016	75.4	88.8
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	154.2	179.4
Credit facility, floating interest rate tied to bankers' acceptance rates, due June 8, 2010	395.0	–
Credit facility, floating interest rate tied to bankers' acceptance rates, due July 23, 2012	250.0	–
Credit facility, floating interest rate tied to bankers' acceptance rates, due November 8, 2010	75.0	–
Construction loans, interest rates fluctuating with the prime rate	0.5	1.6
Unamortized financing costs	(3.8)	–
Capital lease obligations, net of imputed interest	56.5	49.7
	1,475.0	875.1
Less amount due within one year	60.4	82.5
	\$ 1,414.6	\$ 792.6

Long-term debt is secured by land and buildings, specific charges on certain assets and additional security as described in Note 11. Capital lease obligations are secured by the related capital lease asset.

During the year, in relation to the privatization of Sobeys, the Company entered into new credit facilities (the "Credit Facilities") consisting of a \$950.0 unsecured revolving term credit maturing June 8, 2010 (subject to annual one-year extensions at the request of the Company) and a \$50.0 unsecured non-revolving credit that matured on 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 the BA rate loans or LIBOR loans, the margin applicable to the financial covenants. On June 18, 2007, the Company entered into two delayed fixed rate interest swaps. The first swap, in an amount of \$200.0, is for a period of three years at a fixed interest rate of 5.00%. The second swap, in an amount of \$200.0, is for a period of five years at a fixed interest rate of 5.05%. Both swaps became effective on July 23, 2007.

On June 27, 2007, pursuant to the terms of the Credit Facilities, the Company and Sobeys filed notice with the lenders requesting the establishment of a new \$300.0 five-year credit in favour of Sobeys at the same interest rate and substantially on the same terms and conditions as the Credit Facilities. At July 23, 2007, Sobeys drew down \$300.0 from its new credit facility, the proceeds of which were used to pay a dividend to the Company. The Company used the proceeds from the dividend to reduce its indebtedness under the Credit Facilities and the Credit Facilities were reduced to \$650.0 accordingly. On that date, the Company also transferred the second swap to Sobeys. In the fourth quarter, the Credit Facilities were further reduced to \$395.0.

On July 30, 2007, Sobeys exercised an option under its new credit facility to increase the size of the credit from \$300.0 to \$600.0. At the same time, Sobeys terminated its previously existing \$300.0 operating credit which would have expired on December 20, 2010. At May 3, 2008, \$275.0 of this new credit facility was drawn down; \$250.0 has been classified as long-term debt and \$25.0 has been classified as bank indebtedness. Sobeys has also issued \$41.7 in letters of credit against the facility at May 3, 2008.

On November 8, 2007, Sobeys established and drew down on a new unsecured revolving credit facility of \$75.0. The maturity date is November 8, 2010. The interest rate is floating and may be tied to the bankers' acceptance rate, Canadian prime rate or LIBOR.

During fiscal 2008, the Company increased its capital lease obligation by \$8.9 (2007 – \$5.6) with a similar increase in assets under capital lease. These additions are non-cash in nature, therefore have been excluded from the statement of cash flow.

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

	Long-Term Debt	Capital Leases
2009	\$ 47.2	\$ 13.2
2010	20.4	12.0
2011	536.3	11.1
2012	18.0	8.0
2013	265.7	4.9
Thereafter	530.9	7.3

Note 13 Other Long-term Liabilities

	May 3, 2008	May 5, 2007
Deferred lease obligation	\$ 53.2	\$ 41.3
Deferred revenue	5.3	6.5
Accrued benefit liability (Note 24)	23.5	25.7
Derivative liabilities	21.7	–
Other	2.8	3.1
	\$ 106.5	\$ 76.6

Note 14 Capital Stock

	No. of Shares	May 3, 2008	May 5, 2007
Authorized			
Preferred shares, par value of \$25 each, issuable in series.			
Series 2 cumulative, redeemable, rate of 75% of prime.	2,772,300		
2002 Preferred Shares, par value of \$25 each, issuable in series.	992,000,000		
Non-Voting Class A shares, without par value.	259,107,435		
Class B common shares, without par value, voting.	40,800,000		
Issued and outstanding			
Preferred shares, Series 2	258,200	\$ 6.5	\$ 7.5
Non-Voting Class A	31,484,498	185.1	184.5
Class B common	34,260,763	7.6	7.7
		199.2	199.7
Employees share purchase plan		(3.5)	(3.6)
		\$ 195.7	\$ 196.1

During the year, the Company purchased for cancellation 41,800 (2007 – 31,900) Series 2 preferred shares for \$1.0 (2007 – \$0.8).

During the year, 10,461 (2007 – 18,373) Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for \$0.4 (2007 – \$0.8), which was based on the average trading price of the Non-Voting Class A shares on the Toronto Stock Exchange for the five previous trading days.

Under the Long-Term Incentive Plan 99,349 options were issued. Options allow holders to purchase Non-Voting Class A shares at \$43.96 per share. Options expire in December 2015.

Loans receivable from officers and employees of \$3.5 (2007 – \$3.6) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity. Loan repayments will result in a corresponding increase in Share Capital. The loans are non-interest bearing and non-recourse, secured by 111,971 (2007 – 125,265) Non-Voting Class A shares. The market value of the shares at May 3, 2008 was \$4.4 (May 5, 2007 – \$5.3).

During the year, 300,000 Class B common shares were exchanged for 300,000 Non-Voting Class A shares.

During fiscal 2007, under a normal course issuer bid, the Company purchased for cancellation 46,047 Non-Voting Class A shares. The purchase price was \$1.9 of which \$1.6 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During fiscal 2007, 27,674 options were exercised for \$0.2. These options allowed holders to purchase Non-Voting Class A shares at \$6.555 per share.

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

Note 15 Investment Income

	2008	2007
Dividend and interest income	\$ 1.2	\$ 9.7
Share of earnings of entities accounted using the equity method	33.3	31.8
	\$ 34.5	\$ 41.5

Note 16 Capital Gains and Other Items

	2008	2007
Gain on sale of investments	\$ 100.9	\$ 6.2
Other items	0.3	0.9
Change in fair value of Canadian third party asset-backed commercial paper (Note 7)	(7.5)	-
Reduction of book value of real estate assets	(6.0)	-
	\$ 87.7	\$ 7.1

Note 17 Income Taxes

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

	2008	2007 Restated (Note 1)
Income tax expense according to combined statutory rate of 31.9% (2007 – 32.2%)	\$ 116.8	\$ 119.7
Increase (decrease) in income taxes resulting from		
Rate changes effect on timing differences	(5.5)	(2.0)
Non-taxable dividends and equity earnings	(0.1)	(2.2)
	111.2	115.5
Capital gains and other items	14.7	1.4
	\$ 125.9	\$ 116.9

May 3, 2008 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 102.2	\$ 9.0	\$ 111.2
Capital gains and other items	18.6	(3.9)	14.7
	\$ 120.8	\$ 5.1	\$ 125.9

May 5, 2007 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 104.9	\$ 10.6	\$ 115.5
Capital gains and other items	(0.1)	1.5	1.4
	\$ 104.8	\$ 12.1	\$ 116.9

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

	May 3, 2008	May 5, 2007
Property and equipment	\$ 125.9	\$ 108.0
Investments	8.1	38.9
Future employee benefits obligation	(30.9)	(34.9)
Restructuring provisions	(8.4)	(11.6)
Pension contributions	12.6	18.6
Deferred costs	3.2	1.0
Deferred credits	48.8	54.8
Goodwill and intangibles	29.8	10.2
Other	(30.7)	(14.2)
	\$ 158.4	\$ 170.8
Future income taxes – current liabilities	\$ 32.9	\$ 40.4
Future income taxes – non-current liabilities	125.5	130.4
	\$ 158.4	\$ 170.8

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

Note 18 Supplementary Cash Flow Information

	2008	2007 Restated (Note 1)
a) Items not affecting cash		
Depreciation and amortization	\$ 304.6	\$ 269.2
Future income taxes	5.1	12.1
Amortization of other assets	5.1	19.1
Provision on asset-backed commercial paper	7.5	–
Minority interest	12.8	44.4
Stock-based compensation	2.5	1.4
Long-term lease obligation	11.9	16.1
Employee future benefits obligation	4.8	4.8
Rationalization costs (Note 27)	(6.2)	15.5
Reduction of book value of real estate assets	6.0	–
	\$ 354.1	\$ 382.6
b) Other cash flow information		
Net interest paid	\$ 103.9	\$ 58.9
Net income taxes paid	\$ 157.5	\$ 168.2

Note 19 Joint Ventures

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

	May 3, 2008	May 5, 2007
Assets	\$ 139.4	\$ 136.3
Liabilities	\$ 67.8	\$ 72.7
Equity and advances	71.6	63.6
	\$ 139.4	\$ 136.3

	2008	2007
Revenues	\$ 88.7	\$ 111.8
Expenses	36.8	41.7
Income before income taxes	\$ 51.9	\$ 70.1
Cash provided (used)		
Operating activities	\$ 74.8	\$ 68.7
Investing activities	(14.6)	(34.2)
Financing activities	(2.3)	3.3
	\$ 57.9	\$ 37.8

Note 20 Segmented Information

	2008	2007
Revenue		
Food retailing	\$ 13,768.1	\$ 13,032.0
Real estate		
Commercial	40.5	38.4
Inter-segment	34.9	34.3
Residential	85.2	146.1
	160.6	218.8
Investment and other operations	171.2	150.2
	14,099.9	13,401.0
Elimination	(34.9)	(34.3)
	\$ 14,065.0	\$ 13,366.7

	2008	2007 Restated (Note 1)
Operating income		
Food retailing	\$ 359.0	\$ 291.0
Real estate		
Commercial	49.3	46.8
Residential	50.7	71.2
Investment and other operations	24.4	31.6
Corporate expenses	(10.8)	(9.5)
	\$ 472.6	\$ 431.1

	May 3, 2008	May 5, 2007 Restated (Note 1)
Identifiable assets		
Food retailing	\$ 4,026.7	\$ 3,422.4
Goodwill	1,119.0	746.5
	5,145.7	4,168.9
Real estate	282.0	609.4
Investment and other operations (including goodwill of \$40.1; 2007 – \$40.1)	279.2	463.2
	\$ 5,706.9	\$ 5,241.5

	2008	2007 Restated (Note 1)
Depreciation and amortization		
Food retailing	\$ 276.2	\$ 240.6
Real estate	5.4	6.8
Investment and other operations	23.0	21.8
	\$ 304.6	\$ 269.2

	2008	2007 Restated (Note 1)
Capital expenditures		
Food retailing	\$ 481.2	\$ 446.7
Real estate	47.3	16.0
Investment and other operations	20.9	46.2
	\$ 549.4	\$ 508.9

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

Note 21 Financial Instruments

Credit risk

There is no significant concentration of credit risk. The credit risk exposure is considered normal for the business.

Fair value of financial instruments

The book value of cash and cash equivalents, receivables, loans and mortgages, bank indebtedness, and accounts payable and accrued liabilities approximate fair values at May 3, 2008. The fair value of all investments is \$431.2 (May 5, 2007 – \$717.1).

The total fair value of long-term debt is estimated to be \$1,409.1 (May 5, 2007 – \$907.5). The fair value of variable rate long-term debt is assumed to approximate its carrying amount. The fair value of other long-term debt has been estimated by discounting future cash flows at a current rate offered for debt of similar maturities and credit quality.

Derivative financial instruments

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

The following table summarizes the fair value of financial assets and financial liabilities classified as held-for-trading, including non-financial derivatives, recognized in net earnings for the year ended May 3, 2008, before income taxes and minority interest.

	Designated as Held-for-Trading	Required to be Classified as Held-for-Trading
Cash and cash equivalents	\$ 191.4	\$ –
Interest rate swaps	–	(20.0)
Foreign currency forwards	–	2.3
Commodity swaps	–	(1.7)

During the year, only the interest rate swaps resulted in an earnings impact. A loss in value of \$0.9 was recorded in interest expense.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 30 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Foreign exchange risk

Bank indebtedness includes \$4.0 Canadian that is denominated in U.S. dollars and it acts as a partial hedge to the foreign exchange fluctuations inherent in the residual value of certain equipment. The Company 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.

Note 22 Commitments and Contingent Liabilities

Guarantees and commitments

At May 3, 2008 the Company was contingently liable for letters of credit issued in the aggregate amount of \$60.3 (May 5, 2007 – \$45.8).

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 3, 2008 these loans amounted to approximately \$1.3 (May 5, 2007 – \$2.9).

During the second quarter of fiscal 2008 Sobeys entered into an additional guarantee contract. Under the terms of the guarantee, should a franchise affiliate be unable to fulfill their

lease obligation, Sobeys would be required to fund the greater of \$5.0 or 9.9 percent of the unfulfilled obligation balance. As at May 3, 2008 the amount of the guarantee was \$5.0.

Sobeys has guaranteed certain equipment leases of its franchise affiliates. Under the terms of the guarantee should a franchise affiliate be unable to fulfill their lease obligation, Sobeys would be required to fund the difference of the lease commitments up to a maximum of \$70.0, reduced from \$100.0 during the second quarter of fiscal 2008, on a cumulative basis. Sobeys approves each of the contracts.

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2009 is approximately \$18.1. The guaranteed lease commitments over the next five fiscal years are:

	Guaranteed Lease Commitments	
2009	\$	18.1
2010	\$	13.6
2011	\$	12.5
2012	\$	10.1
2013	\$	7.7
Thereafter	\$	1.8

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2009 is approximately \$219.1 (\$300.9 gross less expected sub-lease income of \$81.8). The commitments over the next five fiscal years are:

	Net Lease Obligation	Gross Lease Obligation
2009	\$ 219.1	\$ 300.9
2010	\$ 204.4	\$ 281.8
2011	\$ 191.3	\$ 263.9
2012	\$ 179.6	\$ 247.5
2013	\$ 172.6	\$ 234.5
Thereafter	\$ 1,483.2	\$ 1,862.8

Upon entering into the lease of its Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance, by Serca Foodservice, of all its obligations under the lease. The remaining term of the lease is 12 years with an aggregate obligation of \$37.5 (2007 – \$40.4). At the time of the sale of assets of Serca Foodservice to SYSCO Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and SYSCO Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Contingencies

On June 21, 2005, Sobeys received a notice of reassessment from Canada Revenue Agency ("CRA") for fiscal years 1999 and 2000 related to the Goods and Services Tax ("GST"). CRA asserts that Sobeys was obliged to collect GST on sales of tobacco products to status Indians. The total tax, interest and penalties in the reassessment was \$13.6. Sobeys has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter

of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly Sobeys has not recorded in its statement of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as a long-term receivable from CRA pending resolution of the matter.

The Company and a subsidiary have been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. 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 \$22.8. The Company has appealed the reassessments in respect of the sale of 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.

During the fourth quarter, the Company settled other outstanding disputes with CRA. Payments of \$28.4 were covered by existing provisions resulting in no impact on net earnings.

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 related thereto. The Company has agreed to pay for all additional costs and expenses required for the redevelopment of those properties. In the event that the redevelopment costs are less than \$39.6, 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.

Note 23 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 \$19.6.

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

Note 24 Employee Future Benefits

The company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees.

Defined contribution pension plans

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

Defined benefit pension plans

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

The Company uses April 30th as an actuarial valuation date and May 1st as a measurement date for accounting purposes for its defined benefit pension plans.

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plan	May 1, 2007	May 1, 2010
Senior Management Pension Plan	May 1, 2007	May 1, 2010
Other Benefit Plans	April 30, 2006	April 30, 2009

Defined contribution plans

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

2008	\$	18.6
2007	\$	14.5

Defined benefit plans

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

	Pension Benefit Plans 2008	Pension Benefit Plans 2007	Other Benefit Plans 2008	Other Benefit Plans 2007
Accrued benefit obligation				
Balance, beginning of year	\$ 288.7	\$ 269.3	\$ 116.6	\$ 114.1
Current service cost, net of employee contributions	2.2	2.3	2.7	2.5
Interest cost	13.9	14.9	6.1	5.9
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.5)	(18.6)	(3.5)	(3.8)
Past service costs	0.1	–	–	–
Actuarial (gains) losses	(15.6)	20.5	(5.5)	(2.1)
Balance, end of year	\$ 269.1	\$ 288.7	\$ 116.4	\$ 116.6
Plan assets				
Market value, beginning of year	\$ 283.3	\$ 267.2	\$ –	\$ –
Actual return on plan assets	(13.0)	27.9	–	–
Employer contributions	2.5	6.5	3.4	3.8
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.5)	(18.6)	(3.4)	(3.8)
Surplus payments to members	(0.1)	–	–	–
Market value, end of year	\$ 252.5	\$ 283.3	\$ –	\$ –
Funded status				
Deficit	\$ (16.5)	\$ (5.4)	\$ (116.4)	\$ (116.6)
Unamortized past service cost	0.4	0.5	0.6	1.0
Unamortized actuarial losses	50.8	47.6	5.1	13.5
Accrued benefit asset (liability)	\$ 34.7	\$ 42.7	\$ (110.7)	\$ (102.1)
Expense				
Current service cost, net of employee contributions	\$ 2.2	\$ 2.3	\$ 2.6	\$ 2.5
Interest cost	13.9	14.9	6.1	5.9
Actual return on plan assets	13.0	(27.9)	–	–
Actuarial (gains) losses	(15.6)	20.4	(5.5)	(2.1)
Past service costs	0.1	–	–	–
Surplus payments to members	0.1	–	–	–
Income before adjustments	13.7	9.7	3.2	6.3
Expected vs actual return on plan assets	(32.2)	9.4	–	–
Recognized vs actual past service costs	0.1	0.2	0.1	0.1
Recognized vs actual actuarial gains (losses)	16.0	(19.3)	5.0	2.2
Net expense (income)	\$ (2.4)	\$ –	\$ 8.3	\$ 8.6
Classification of accrued benefit asset (liability)				
Other assets	\$ 58.2	\$ 68.4	\$ –	\$ –
Other liabilities	(23.5)	(25.7)	(110.7)	(102.1)
Accrued benefit asset (liability)	\$ 34.7	\$ 42.7	\$ (110.7)	\$ (102.1)

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

	Pension Benefit Plans 2008	Pension Benefit Plans 2007	Other Benefit Plans 2008	Other Benefit Plans 2007
Accrued benefit obligation	\$ 21.8	\$ 20.9	\$ 110.7	\$ 102.1

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of May 3, 2008):

	Pension Benefit Plans 2008	Pension Benefit Plans 2007	Other Benefit Plans 2008	Other Benefit Plans 2007
Discount rate	5.25%	5.00%	5.25%	5.25%
Expected long-term rate of return on plan assets	7.00%	7.00%		
Rate of compensation increase	4.00%	4.00%		

For measurement purposes, a 9.0 percent fiscal 2008 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2016 is 5.0 percent. The expected average remaining service period of the active employees covered by the pension benefit plans ranges from 10 to 11 years with a weighted average of 10 years at year end. The expected average remaining service period of the active employees covered by the other benefit plans range from 11 to 16 years with a weighted average of 14 years at year end.

The table below outlines the sensitivity of the fiscal 2008 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	Pension Plans		Other Benefit Plans	
	Benefit Obligations	Benefit Cost ⁽¹⁾	Benefit Obligations	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.4)		
1% decrease		\$ 2.4		
Discount rate ⁽²⁾	5.25%	5.25%	5.25%	5.25%
Impact of: 1% increase	\$ (29.5)	\$ 0.4	\$ (17.1)	\$ (0.7)
1% decrease	\$ 33.1	\$ (0.8)	\$ 20.6	\$ 0.8
Growth rate of health costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 19.1	\$ 1.9
1% decrease			\$ (15.4)	\$ (1.5)

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

(2) 5.5% for the Employee Pension Plan and the Post Retirement Benefit Plan.

(3) Gradually decreasing to 5.0% in 2016 and remaining at that level thereafter.

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

	2008	2007
Cash and short-term investments	2.91%	2.43%
Bonds, debenture, fixed income pooled funds and real estate funds	25.51%	18.20%
Equities and pooled equities fund	70.26%	78.55%
Accrued interest and dividends	0.26%	0.22%
Foreign currency hedges	1.06%	0.60%
Total investments	100.00%	100.00%

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

	2008	% of Plan Assets	2007	% of Plan Assets
	\$ 80.8	9.0%	\$ 92.2	9.3%

Note 25 Business Acquisitions

Sobeys acquires franchisee stores and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company, and were accounted for through the use of the purchase method. As

illustrated in the table below, the acquisition of certain franchise stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over the estimated useful life of the intangible.

	2008	2007
Franchisees		
Inventory	\$ 6.6	\$ 4.9
Property and equipment	5.1	2.4
Intangibles	5.9	3.3
Goodwill	1.2	0.9
Other assets (liabilities)	(1.5)	0.3
Cash consideration	\$ 17.3	\$ 11.8
Prescription files		
Intangibles	\$ 2.5	\$ 4.9
Cash consideration	\$ 2.5	\$ 4.9

On September 12, 2007, Sobeys acquired all the assets and assumed certain liabilities of Thrifty Foods ("Thrifty") for an amount of \$253.6. The assets acquired include 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The acquisition was accounted for using the purchase method with the results of Thrifty being consolidated since the

acquisition date. Management carried out a detailed analysis and changes were made to the preliminary allocation of the excess consideration paid over net assets acquired as disclosed in previous quarters of fiscal 2008. The measurement and allocation of finite and infinite intangible assets and goodwill (approximately \$174.0 of which is deductible for tax) was completed during the fourth quarter of fiscal 2008.

The final purchase price allocation, incorporating management's assessment of fair value, is as follows:

Consideration	
Cash	\$ 250.4
Acquisition costs	3.2
Total consideration paid	253.6
Net assets acquired	
Current assets	41.4
Long-term assets	36.9
Current liabilities assumed	(43.6)
Long-term liabilities assumed	(13.1)
Total net assets acquired	21.6
Excess consideration paid over net assets acquired	\$ 232.0
Allocation of excess consideration paid over net assets acquired	
Intangible assets – Banner	\$ 24.0
– Other	1.9
Goodwill	206.1
	\$ 232.0

During the first two quarters of fiscal 2007, the Company increased its ownership interest in Sobeys from 70.3% to 72.1% by way of purchase of shares on the open market. The acquisition was accounted for using the purchase method with operating results being included in the consolidated financial statements from the date of each share acquisition. The cash consideration paid was \$48.6, goodwill increased by \$13.0 and minority interest decreased by \$35.6.

On August 27, 2006, Sobeys acquired substantially all of the food distribution assets of Achille de la Chevrotière Ltée and its associated companies ("ADL") for an amount of \$79.2.

The assets acquired include 25 owned or franchised retail store operations, other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Québec. Sixteen of the franchised retail store operations are considered VIEs under the Company's policy (see Note 28). They have been included in the consolidated results of the Company. The acquisition was accounted for using the purchase method with the results of ADL being consolidated since the acquisition date. The final purchase price allocation, which has incorporated management's assessment of fair value, is as follows:

Consideration	
Cash	\$ 75.8
Acquisition costs	3.4
Total consideration paid	79.2
Net assets acquired	
Current assets	28.0
Long-term assets	27.7
Current liabilities assumed	(20.0)
Long-term liabilities assumed	(4.6)
Total net assets acquired	31.1
Excess consideration paid over net assets acquired	\$ 48.1
Allocation of excess consideration paid over net assets acquired	
Intangible assets – Agreements	\$ 6.3
– Other	0.5
Goodwill	41.3
	\$ 48.1

Note 26 Stock-based Compensation

Deferred share units

Members of the Board of Directors may elect to receive all or any portion of their fees in Deferred Share Units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At May 3, 2008, there were 64,877 (May 5, 2007 – 66,435) DSUs outstanding. During the year, the stock-based compensation expense was \$0.5 (2007 – \$0.6).

Share purchase loans

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

The compensation cost relating to the Share Purchase Loans was determined to be \$0.1 (2007 – \$0.2) with amortization of the cost over six years. The total increase in contributed surplus in relation to the Share Purchase Loan compensation cost for fiscal 2008 is \$0.1 (2007 – \$0.1). The contributed surplus balance was reduced by \$0.1 in relation to shares issued under the Share Purchase Loan that have been treated as stock-based compensation that became fully vested with the employee during fiscal 2008. Shares become vested when the employees' outstanding loan balance is reduced. The compensation cost was calculated using the Black-Scholes model with the following assumptions:

	2008	2007
Expected life	6 years	7 years
Risk-free interest rate	3.50%	4.40%
Expected volatility	20.1%	19.7%
Dividend yield	1.5%	1.4%

Stock option plan

During fiscal 2008, the Company granted options under the Stock Option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. Options allow holders to purchase Non-Voting Class A Shares at \$43.96 per share and expire in December 2015. The options vest over four years with 50 percent of the options vesting only if certain financial targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

During fiscal 2008, 99,349 options were granted. The compensation cost relating to the fiscal 2008 was determined to be \$0.2 with amortization of the cost over the vesting period. The total increase in contributed surplus in relation to the Stock Option compensation cost for fiscal 2008 is \$0.2. The compensation cost was calculated using the Black-Scholes model with the same assumptions as detailed above for the share purchase loans.

Phantom performance option plan

In June 2007, the Board of Directors approved a Phantom Performance Option Plan for eligible employees of Sobeys. Under the plan, units are granted at the discretion of the Board based on a notional equity value of Sobeys tied to a specified formula. The units have a three-year vesting period with a third of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five-year period. The Company recognizes a compensation expense equal to the increase in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any increase in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as a liability until settlement and is re-measured at each interim and annual reporting period of the Company. At the end of fiscal 2008, 518,579 units were outstanding and the Company recognized \$0.1 (May 5, 2007 – \$Nil) of compensation expense associated with this Plan during fiscal 2008.

Note 27 Business Rationalization Costs

During the third quarter of fiscal 2007, Sobeys completed a rationalization of administrative functions and also began to incur rationalization costs associated with the development of a new grocery distribution centre in Vaughan, Ontario. These costs primarily relate to severance and fixed asset and inventory write-offs. In the fourth quarter of fiscal 2007, Sobeys also recorded additional rationalization costs related to the closure of two distribution facilities in Quebec of which \$3.5 was reversed in fiscal 2008 as a result of changes in management's estimates of

the expected costs. During the first quarter of fiscal 2008, Sobeys incurred additional administrative rationalization costs. Subsequent to year-end additional severance costs of approximately \$5.6 have been incurred and will be recognized in the first quarter of fiscal 2009. Additional rationalization costs are anticipated and will be quantified and disclosed throughout fiscal 2009 as they are available. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statement of earnings, before tax, as follows:

	Liability at May 5, 2007	Incurred Fiscal 2008	Paid	Liability at May 3, 2008
Severance	\$ 12.1	\$ (1.8)	\$ 4.4	\$ 5.9
Other costs	-	-	-	-
Asset write-offs	-	-	-	-
	\$ 12.1	\$ (1.8)	\$ 4.4	\$ 5.9

	Incurred Fiscal 2007	Incurred Fiscal 2008	Anticipated	Total Incurred and Anticipated
Severance	\$ 14.3	\$ (1.8)	\$ 5.6	\$ 18.1
Other costs	1.1	-	-	1.1
Asset write-offs	3.4	-	-	3.4
	\$ 18.8	\$ (1.8)	\$ 5.6	\$ 22.6

Note 28 Variable Interest Entities

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

The Company has identified the following entities as VIEs:

Franchise Affiliates

The Company has identified 292 (May 5, 2007 – 271) franchise affiliate stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Note 29 Comparative Figures

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation and to record the effects of retroactive application of certain new accounting standards.

Warehouse and Distribution Agreement

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