

notes to the consolidated financial statements

MAY 2, 2009 (IN MILLIONS EXCEPT PER SHARE AMOUNTS, KEY RATIOS AND PERCENTAGE AMOUNTS)

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 percent owned Sobeys Inc. ("Sobeys"), and certain enterprises considered variable interest entities ("VIEs") where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence are accounted for 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, 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 2009

Inventories

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3031 of the CICA Handbook, "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, including allocation of overheads and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs are specifically excluded from the cost of inventories and are expensed in the period incurred. The standard also requires the use of either first-in, first-out or weighted average cost formula to measure the cost of inventories of similar nature and use. Techniques, such as the retail method, used to measure the cost of inventory may be used if the results approximate cost. This standard was effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company applied the standard to the opening inventory for the fiscal year beginning May 4, 2008 and adjusted retained earnings by the difference in the measurement of cost in opening inventory of a similar nature and use (prior periods were not restated).

Following adoption of Section 3031, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

The initial impact of measuring inventories under the new standard is a decrease to the carrying amount of opening inventories as at May 4, 2008 of \$27.9 and a decrease in income taxes payable of \$6.4. Opening retained earnings has been adjusted by \$21.5, equal to the change in opening inventories net of tax.

The cost of inventory recognized as an expense during fiscal 2009 was \$11,232.5. The cost of inventories recognized as an expense during fiscal 2009 includes \$45.5 for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously.

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 (see Note 15). The adoption of Section 1535 did not have an impact on the Company's financial results or position.

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". 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 (see Note 22). Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risk and the techniques used to identify, monitor and manage

these risks. In accordance with the transitional provision of Section 3862, comparative information about the nature and extent of risks arising from financial instruments is not required in the year of adoption. 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 and has no significant impact on the Company's financial statements.

Financial instruments – recognition and measurement

In January 2009, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173") "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". EIC 173 requires that a company take into account its own credit risk and the credit risk of its counterparty in determining the fair value of financial assets and financial liabilities. This Abstract must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have a material impact on the Company's financial results, financial position or disclosures.

ADOPTED DURING FISCAL 2008

On May 6, 2007, the Company adopted CICA Sections 3855, "Financial Instruments – Recognition and Measurement", 3865, "Hedges", 1530, "Comprehensive Income", 3251, "Equity" and 3861, "Financial Instruments – Disclosure and Presentation". These standards were applied without restatement of prior periods and the transition adjustments resulting from these standards were recognized in the opening balances of retained earnings and accumulated other comprehensive income.

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)

Upon adoption of Section 3855, Section 3070, "Deferred Charges", was withdrawn. As a result, the Company reviewed its accounting policy for deferred charges. This change in accounting policy was applied retrospectively, resulting in a \$4.3 decrease in retained earnings at May 3, 2008.

FUTURE CHANGES IN ACCOUNTING POLICIES

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.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard 3, "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt all three standards must be adopted concurrently. 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

In fiscal 2009, as a result of the implementation of CICA Section 3031, "Inventories", which replaced Section 3030 of the same name, warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method

or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis. Real estate inventory of residential properties is valued at the lower of cost and net realizable value.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred.

In fiscal 2008, warehouse inventories were valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out or a weighted average cost basis. Retail inventories were valued at the lower of cost and net realizable value. Cost was determined using weighted average cost or the retail method. In fiscal 2009 and 2008, real estate inventory consisting of residential properties is valued at the lower of cost and net realizable value.

LONG-LIVED ASSETS

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

PROPERTY AND EQUIPMENT

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

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

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

Equipment, fixtures and vehicles	3 – 20 years
Buildings	10 – 40 years
Leasehold improvements	Lesser of lease term and 7 – 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 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 \$3.1 (2008 – \$1.5).

(b) Development properties and land held for future development

Interest, real estate taxes and other expenses are expensed, with the exception of property taxes which are capitalized during the construction period. Capitalization of all costs ceases when the development property is substantially complete and ready for productive use, at which time the properties are classified as commercial properties. No amounts were capitalized in fiscal 2009 (\$0.8 in fiscal 2008).

DEFERRED CHARGES

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

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.

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.

ASSETS HELD FOR SALE

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

INTANGIBLES

Intangibles arise on the purchase of a new business, existing franchises, 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

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 its value is impaired. Should the carrying value exceed the fair value of goodwill or intangible assets (e.g. trademarks), the carrying value will be written down to the fair value.

FINANCIAL INSTRUMENTS

The Company is required to recognize and measure all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value except for loans and receivables, held to maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Derivatives and 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.

The Company classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is 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. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

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

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Loans and other receivables	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Derivative other assets and liabilities	Held for trading	Fair value
Non-derivative other assets 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

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

Guarantees

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

Hedges

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

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

Significant derivatives include the following:

- (1) Foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These

contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.

- (2) Electricity contracts to manage the cost of electricity designated as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated other comprehensive income is reclassified into other income/expense when the product containing the hedged item impacts earnings. 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.

CUSTOMER LOYALTY PROGRAMS

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

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

An AIR MILES® reward program is also used by the Company. AIR MILES® are earned by certain Sobeys customers based on purchases in stores. The cost of this program is expensed as incurred as cost of sales, selling and administrative expenses in the consolidated statement of earnings.

FUTURE INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

DEFERRED REVENUE

Deferred revenue consists of long-term supplier purchase agreements, rental revenue arising from the sale of subsidiaries and gains on sale leaseback transactions. Deferred revenue is being taken into income on a straight-line basis over the term of the related agreements and 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 changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members. For pension benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members. For the Company's Supplemental Executive Retirement Plan ("SERP"), the impact of changes in the plan provisions are amortized over five years.

VENDOR ALLOWANCES

The Company receives allowances from certain vendors whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. The Company recognizes these allowances as a reduction of cost of sales, selling and administrative expenses and related inventories in accordance with EIC-144, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor".

Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. As of the year ended May 2, 2009, the Company has recognized \$5.7 (2008 – \$5.1) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

USE OF ESTIMATES

The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgements by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation, valuation

of asset-backed commercial paper, loyalty programs and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

EARNINGS PER SHARE

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

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 to measure and allocate the

excess consideration paid over net assets acquired. The final purchase price allocation, incorporating management's assessment of fair value, was 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/liability		(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 maintained the Company's interest in Crombie REIT

at 47.8 percent. 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 were 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). 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:

	2009	2008
Operating earnings	\$ 262.9	\$ 242.8
Capital gains and other items, net of income taxes of \$(0.2) (2008 – \$14.7)	3.0	73.0
Net earnings	265.9	315.8
Preferred share dividends	(0.1)	(0.3)
Earnings applicable to common shares	\$ 265.8	\$ 315.5
Earnings per share is comprised of the following:		
Operating earnings	\$ 4.00	\$ 3.69
Net capital gains and other items	0.05	1.11
Basic earnings per share	\$ 4.05	\$ 4.80
Operating earnings	\$ 3.99	\$ 3.69
Net capital gains and other items	0.05	1.11
Diluted earnings per share	\$ 4.04	\$ 4.80

NOTE 5 Investments, at Equity

	May 2, 2009	May 3, 2008
Wajax Income Fund (27.6% interest)	\$ 31.0	\$ 31.6
Crombie REIT (47.9% interest)	(19.7)	9.5
U.S. residential real estate partnerships	7.5	0.3
	\$ 18.8	\$ 41.4

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

	May 2, 2009	May 3, 2008
Balance, beginning of year	\$ 31.6	\$ 32.2
Equity earnings	18.5	19.7
Share of comprehensive loss	(0.5)	(0.2)
Distributions received	(18.6)	(20.1)
Balance, end of year	\$ 31.0	\$ 31.6

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

	May 2, 2009	May 3, 2008
Balance, beginning of year	\$ 9.5	\$ 109.3
Equity earnings	19.8	13.6
Share of comprehensive loss	(20.8)	(6.8)
Distributions received	(21.8)	(17.0)
Interest received in Crombie REIT	-	55.0
Deferral of gains on sale of property	(6.4)	(144.6)
Balance, end of year	\$ (19.7)	\$ 9.5

NOTE 6 Loans and Other Receivables

	May 2, 2009	May 3, 2008
Loans receivable	\$ 65.5	\$ 58.1
Mortgages receivable	21.2	26.4
Other	44.4	41.7
	131.1	126.2
Less amount due within one year	55.8	69.9
	\$ 75.3	\$ 56.3

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 2, 2009	May 3, 2008
Deferred purchase agreements	\$ 37.2	\$ 35.9
Accrued benefit asset (NOTE 25)	63.1	58.2
Asset-backed commercial paper	17.8	22.5
Restricted cash	3.6	3.9
Derivative assets	1.7	2.3
Other	28.0	52.7
	\$ 151.4	\$ 175.5

ASSET-BACKED COMMERCIAL PAPER

Included in other assets is \$30.0 (2008 – \$30.0) of third-party asset-backed commercial paper ("ABCP") against which the Company has taken a pre-tax impairment provision in the amount of \$12.2 (2008 – \$7.5). On January 21, 2009, the Company derecognized the existing available-for-sale assets and received restructured ABCP MAV II notes: A1 – \$7.8,

A2 – \$17.5, B – \$3.2, C – \$0.9 and \$0.6 of tracking notes (the "restructured notes") as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from the Dominion Bond Rating Service. The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017. Accrued interest owed from August 2007 to the restructuring

date is expected in two payments; the first was received on January 23, 2009 for \$1.0 and a second interest payment for the remainder is expected to be received at a future date. The Company has classed these notes as held for trading and as a result will be fair valued at each reporting period. The Company updated its analysis of the fair value of the restructured notes, including factors such as estimated cash flow scenarios and risk-adjusted discount rates, and an additional pre-tax provision, net of interest received, of \$3.7 was recorded in fiscal 2009. The total charge for impairment is approximately 41 percent (2008 – 25 percent) of the original value of the ABCP.

Discount rates vary depending upon the credit rating of the restructured 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. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately \$1.3 (2008 – \$2.0).

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 future 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.

NOTE 8 Property and Equipment

	May 2, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Food segment			
Land	\$ 270.7	\$ –	\$ 270.7
Land held for development	57.2	–	57.2
Buildings	909.8	238.0	671.8
Equipment, fixtures and vehicles	2,286.4	1,471.2	815.2
Leasehold improvements	488.2	288.2	200.0
Construction in progress	227.1	–	227.1
Assets under capital leases	113.8	52.1	61.7
	4,353.2	2,049.5	2,303.7
Real estate and other segments			
Land	6.5	–	6.5
Land held for development	57.5	–	57.5
Buildings	72.9	25.1	47.8
Equipment	80.9	42.5	38.4
Leasehold improvements	59.1	19.7	39.4
Construction in progress	54.1	–	54.1
Petroleum and natural gas costs	83.9	29.8	54.1
	414.9	117.1	297.8
Total	\$ 4,768.1	\$ 2,166.6	\$ 2,601.5

	May 3, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Food 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

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 \$8.5 (2008 – \$60.3). Included in liabilities related to these assets held for

sale is \$nil (2008 – \$6.4). 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 Intangibles

	Cost	Accumulated Amortization	May 2, 2009 Net Book Value
Brand names	\$ 201.0	\$ 5.3	\$ 195.7
Franchise rights/agreements	52.8	13.4	39.4
Loyalty programs	11.4	–	11.4
Patient files	26.6	6.6	20.0
Private labels	59.5	–	59.5
Other	26.2	6.8	19.4
	\$ 377.5	\$ 32.1	\$ 345.4

	Cost	Accumulated Amortization	May 3, 2008 Net Book Value
Brand names	\$ 201.0	\$ 1.9	\$ 199.1
Franchise rights/agreements	46.7	10.5	36.2
Loyalty programs	11.4	–	11.4
Patient files	23.4	4.6	18.8
Private labels	59.5	–	59.5
Other	26.1	4.3	21.8
	\$ 368.1	\$ 21.3	\$ 346.8

NOTE 11 Bank Indebtedness

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

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 was subsequently extended to August 15, 2008 and October 14, 2008. On October 22, 2008,

Sobeys established a new unsecured revolving term credit facility of \$30.0 replacing the non-revolving facility that matured on October 14, 2008. This facility matured January 15, 2009, and was subsequently extended to April 15, 2009. This facility had not been utilized and was not renewed; however, any interest payable would have fluctuated with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate ("LIBOR").

NOTE 12 Long-Term Debt

	May 2, 2009 Total	May 3, 2008 Total
First mortgage loans, average interest rate 9.6%, due 2009-2026	\$ 71.5	\$ 72.2
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 10.1%, due 2009–2016	62.6	75.4
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	146.2	154.2
Credit facility, floating interest rate tied to bankers' acceptance rates, due June 8, 2010	244.0	395.0
Credit facility, floating interest rate tied to bankers' acceptance rates, due July 23, 2012	200.0	250.0
Credit facility, floating interest rate tied to bankers' acceptance rates, due November 8, 2010	75.0	75.0
Unamortized financing costs	(3.0)	(3.8)
Capital lease obligations, net of imputed interest	60.7	56.5
	1,257.0	1,474.5
Less amount due within one year	133.0	60.4
	\$ 1,124.0	\$ 1,414.1

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 fiscal 2008, 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 4.998%. The second swap, in an amount of \$200.0, is for a period of five years at a fixed interest rate of 5.051%. 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. At May 2, 2009, the Credit Facilities have been reduced to \$244.0 (May 3, 2008 – \$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 2, 2009, \$200.0 (May 3, 2008 – \$250.0) of this new credit facility has been drawn down and classified as long-term debt and \$Nil (May 3, 2008 – \$25.0) has been drawn down and classified as bank indebtedness. Sobeys has also issued \$40.1 in letters of credit against the facility at May 2, 2009 (\$41.7 at May 3, 2008).

On November 8, 2007, Sobeys established and utilized a new unsecured revolving credit facility of \$75.0. The maturity date is November 8, 2010. The interest rate is floating and fluctuates with the bankers' acceptance rate, Canadian prime rate or LIBOR.

During fiscal 2009, the Company increased its capital lease obligation by \$12.6 (2008 – \$8.9) 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
2010	\$ 117.8	\$ 15.2
2011	305.9	13.4
2012	21.8	10.6
2013	216.8	6.6
2014	25.0	3.9
Thereafter	512.0	11.0

NOTE 13 Other Long-Term Liabilities

	May 2, 2009	May 3, 2008
Deferred lease obligation	\$ 54.4	\$ 53.2
Deferred revenue	7.8	5.3
Accrued benefit liability (NOTE 25)	24.3	23.5
Derivative liabilities	39.8	21.7
Other	8.7	2.8
	\$ 135.0	\$ 106.5

NOTE 14 Capital Stock

	No. of Shares	May 2, 2009	May 3, 2008
Authorized			
Preferred shares, par value of \$25 each, issuable in series.			
Series 2 cumulative, redeemable, rate of 75% of prime.	2,682,100		
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	168,000	\$ 4.2	\$ 6.5
Non-Voting Class A	34,197,498	316.1	185.1
Class B common	34,260,763	7.6	7.6
		327.9	199.2
Employees' share purchase plan		(3.4)	(3.5)
		\$ 324.5	\$ 195.7

On April 24, 2009, the Company closed a bought-deal public offering of Non-Voting Class A shares at a price of \$49.75 per share. The underwriters elected to exercise their over-allotment option in full resulting in a total of 2,713,000 shares being issued for net proceeds of \$129.1.

During the year, the Company purchased for cancellation 90,200 (2008 – 41,800) Series 2 preferred shares for \$2.3 (2008 – \$1.0).

During the year, nil (2008 – 10,461) Non-Voting Class A shares were issued under the Company's share purchase plan to certain officers and employees for \$nil (2008 – \$0.4), 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 189,967 (2008 – 92,766) options were issued. Options allow holders to purchase

Non-Voting Class A shares at \$40.26 (2008 – \$43.96) per share. Options expire in June 2015 and in June 2016.

Loans receivable from officers and employees of \$3.4 (2008 – \$3.5) 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 110,148 (2008 – 111,971) Non-Voting Class A shares. The market value of the shares at May 2, 2009 was \$5.5 (May 3, 2008 – \$4.4).

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

NOTE 15 Capital Management

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and (iv) to maintain an investment grade

credit rating with each rating agency that assesses the credit worthiness of Sobeys Inc. No changes were made to these objectives in the current year.

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

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

	May 2, 2009	May 3, 2008
Bank indebtedness	\$ 45.9	\$ 92.6
Long-term debt due within one year	133.0	60.4
Liabilities relating to assets held for sale	–	6.4
Long-term debt	1,124.0	1,414.1
Funded debt	1,302.9	1,573.5
Less cash and cash equivalents	(231.6)	(191.4)
Net funded debt	1,071.3	1,382.1
Shareholders' equity	2,683.5	2,382.3
Capital under management	\$ 3,754.8	\$ 3,764.4

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

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and features and the purchase of land bank sites for future store construction.

The Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its real estate and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. This cash flow is supplemented, when necessary, through additional debt or the issuance of additional capital stock.

Management monitors certain key ratios to effectively manage capital:

	May 2, 2009	May 3, 2008
Funded debt to total capital ⁽¹⁾	32.7%	39.8%
Funded debt to EBITDA ⁽²⁾	1.64x	2.02x
EBITDA to interest expense	9.84x	7.35x

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

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

As part of existing debt agreements, two financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are: (i) adjusted total debt/EBITDA – calculated as funded debt plus letters of credit, guarantees and commitments divided by EBITDA

(for previous 52 weeks); and (ii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (all amounts are based on previous 52 weeks).

The Company was in compliance with these covenants during the year.

NOTE 16 Investment Income

	2009	2008
Dividend and interest income	\$ 0.5	\$ 1.2
Share of earnings of entities accounted using the equity method	38.4	33.3
	\$ 38.9	\$ 34.5

NOTE 17 Capital Gains and Other Items

	2009	2008
Gain on sale of investments	\$ -	\$ 100.9
Gain on sale of property	7.5	0.9
Other items	(1.0)	(0.6)
Change in fair value of Canadian third party asset-backed commercial paper (NOTE 7)	(3.7)	(7.5)
Reduction of book value of real estate assets	-	(6.0)
	\$ 2.8	\$ 87.7

NOTE 18 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:

	2009	2008
Income tax expense according to combined statutory rate of 29.9% (2008 – 31.9%)	\$ 116.0	\$ 116.8
Increase (decrease) in income taxes resulting from		
Rate changes effect on timing differences	0.3	(5.5)
Non-taxable dividends	-	(0.1)
	116.3	111.2
Capital gains and other items	(0.2)	14.7
	\$ 116.1	\$ 125.9

May 2, 2009 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	\$ 128.9	\$ (12.6)	\$ 116.3
Capital gains and other items	0.7	(0.9)	(0.2)
	\$ 129.6	\$ (13.5)	\$ 116.1

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

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

	May 2, 2009	May 3, 2008
Property and equipment	\$ 119.4	\$ 125.9
Investments	6.5	8.1
Future employee benefits obligation	(33.3)	(30.9)
Restructuring provisions	(7.6)	(8.4)
Pension contributions	14.4	12.6
Deferred costs	(4.9)	3.2
Deferred credits	37.4	35.7
Goodwill and intangibles	34.0	29.8
Other	(33.7)	(17.6)
	\$ 132.2	\$ 158.4
Future income taxes – current liabilities	\$ 42.7	\$ 32.9
Future income taxes – non-current liabilities	89.5	125.5
	\$ 132.2	\$ 158.4

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 19 Supplementary Cash Flow Information

	2009	2008
a) Items not affecting cash		
Depreciation and amortization	\$ 324.8	\$ 304.6
Future income taxes	(13.5)	5.1
(Gain) loss on disposal of assets	(5.1)	1.3
Amortization of other assets	3.2	5.1
Provision on asset-backed commercial paper	3.7	7.5
Equity in earnings of other entities, net of dividends received	2.4	4.7
Minority interest	8.3	12.8
Stock-based compensation	1.2	2.5
Long-term lease obligation	7.1	11.9
Employee future benefits obligation	7.7	4.8
Rationalization costs (NOTE 28)	6.3	(6.2)
Reduction of book value of real estate assets	-	6.0
	\$ 346.1	\$ 360.1
b) Other cash flow information		
Net interest paid	\$ 80.5	\$ 103.9
Net income taxes paid	\$ 117.2	\$ 157.5

NOTE 20 Joint Ventures

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

	May 2, 2009	May 3, 2008
Assets	\$ 116.7	\$ 139.4
Liabilities	\$ 26.5	\$ 67.8
Equity and advances	90.2	71.6
	\$ 116.7	\$ 139.4
	2009	2008
Revenues	\$ 58.3	\$ 88.7
Expenses	23.9	36.8
Income before income taxes	\$ 34.4	\$ 51.9
Cash provided (used)		
Operating activities	\$ 35.4	\$ 74.8
Investing activities	(5.3)	(14.6)
Financing activities	(9.7)	(2.3)
	\$ 20.4	\$ 57.9

NOTE 21 Segmented Information

	2009	2008
Revenue		
Food retailing	\$ 14,764.8	\$ 13,768.1
Real estate		
Sobey Leased Properties Limited	–	20.6
Other commercial	16.4	19.9
Inter-segment	2.9	34.9
Residential	54.6	85.2
	73.9	160.6
Investment and other operations	179.3	171.2
	15,018.0	14,099.9
Elimination	(2.9)	(34.9)
	\$ 15,015.1	\$ 14,065.0

	2009	2008
Operating income		
Food retailing	\$ 401.4	\$ 359.0
Real estate		
Sobey Leased Properties Limited	–	30.0
Crombie REIT	19.8	13.6
Other commercial	2.5	5.7
Residential	33.6	50.7
Investment and other operations		
Wajax Income Fund	18.5	19.7
Other operations, net of corporate expenses	(7.7)	(6.1)
	\$ 468.1	\$ 472.6

	May 2, 2009	May 3, 2008
Identifiable assets		
Food retailing	\$ 4,279.0	\$ 4,052.7
Goodwill	1,130.6	1,119.0
	5,409.6	5,171.7
Real estate	223.1	282.0
Investment and other operations (including goodwill of \$40.8; May 3, 2008 – \$40.1)	265.3	279.2
	\$ 5,898.0	\$ 5,732.9

	May 2, 2009	May 3, 2008
Inventories		
Food retailing	\$ 750.7	\$ 731.9
Real estate – residential	90.4	86.6
Other operations	1.7	1.7
	\$ 842.8	\$ 820.2

	2009	2008
Depreciation and amortization		
Food retailing	\$ 301.8	\$ 276.2
Real estate	1.8	5.4
Investment and other operations	21.2	23.0
	\$ 324.8	\$ 304.6

	2009	2008
Capital expenditures		
Food retailing	\$ 382.7	\$ 481.2
Real estate	36.9	47.3
Investment and other operations	11.4	22.2
	\$ 431.0	\$ 550.7

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

NOTE 22 Financial Instruments

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily ABCP (Note 7), accounts receivable, loans and other receivables, derivative contracts and guarantees.

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

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

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

	May 2, 2009
0 – 30 days	\$ 248.9
31 – 90 days	32.5
Greater than 90 days	68.5
Total receivables before allowance	349.9
for doubtful accounts	(31.2)
Less: allowance for doubtful accounts	(31.2)
Receivables	\$ 318.7

Interest earned on past due accounts is recorded as a reduction to cost of sales, selling and administrative expenses in the statement of earnings. Loans and other receivables are all current as of May 2, 2009.

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

in allowance for doubtful accounts is recorded as cost of sales, selling and administrative expenses in the statement of earnings and is presented as follows:

52 Weeks Ended	May 2, 2009
Allowance, beginning of year	\$ 28.7
Provision for losses	11.6
Recoveries	(2.4)
Write-offs	(6.7)
Allowance, end of year	\$ 31.2

LIQUIDITY RISK

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

The Company monitors capital markets and the related conditions. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 2, 2009:

	2010	2011	2012	2013	2014	Thereafter	Total
Accounts payable	\$ 1,487.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,487.1
Bank indebtedness	45.9	-	-	-	-	-	45.9
Interest rate swaps payable ⁽¹⁾	20.7	13.6	11.0	2.6	-	-	47.9
Long-term debt	205.3	372.7	82.8	261.8	62.5	1,044.3	2,029.4

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

May 2, 2009	Held for Trading (Required)	Held for Trading (Designated)	Available-for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
Financial assets							
Cash and cash equivalents	\$ -	\$ 231.6	\$ -	\$ -	\$ -	\$ 231.6	\$ 231.6
Receivables	-	-	-	318.7	-	318.7	318.7
Loans and other receivables	-	-	-	131.1	-	131.1	131.1
Investments	-	-	1.1	-	-	1.1	1.1
Other assets ⁽¹⁾	1.7	21.4	-	-	-	23.1	23.1
Total financial assets	\$ 1.7	\$ 253.0	\$ 1.1	\$ 449.8	\$ -	\$ 705.6	\$ 705.6
Financial liabilities							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ 45.9	\$ 45.9	\$ 45.9
Accounts payable and accrued liabilities	-	-	-	-	1,487.1	1,487.1	1,487.1
Long-term debt	-	-	-	-	1,257.0	1,257.0	1,168.8
Other long-term liabilities ⁽²⁾	39.8	-	-	-	-	39.8	39.8
Total financial liabilities	\$ 39.8	\$ -	\$ -	\$ -	\$ 2,790.0	\$ 2,829.8	\$ 2,741.6

(1) The total carrying value of financial assets included in other assets is \$23.1.

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

May 3, 2008	Held for Trading (Required)	Held for Trading (Designated)	Available-for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
Financial assets							
Cash and cash equivalents	\$ -	\$ 191.4	\$ -	\$ -	\$ -	\$ 191.4	\$ 191.4
Receivables	-	-	-	291.1	-	291.1	291.1
Loans and other receivables	-	-	-	126.2	-	126.2	126.2
Investments	-	-	1.6	-	-	1.6	1.6
Other assets ⁽¹⁾	2.3	26.4	-	-	-	28.7	28.7
Total financial assets	\$ 2.3	\$ 217.8	\$ 1.6	\$ 417.3	\$ -	\$ 639.0	\$ 639.0
Financial liabilities							
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ 92.6	\$ 92.6	\$ 92.6
Accounts payable and accrued liabilities	-	-	-	-	1,348.4	1,348.4	1,348.4
Long-term debt	-	-	-	-	1,480.9	1,480.9	1,415.0
Other long-term liabilities ⁽²⁾	21.7	-	-	-	-	21.7	21.7
Total financial liabilities	\$ 21.7	\$ -	\$ -	\$ -	\$ 2,921.9	\$ 2,943.6	\$ 2,877.7

(1) The total carrying value of financial assets included in other assets is \$28.7.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

INTEREST RATE RISK

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates. The majority of the Company's long-term debt is at a fixed interest rate or hedged with interest rate swaps. Bank indebtedness and approximately 20 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the period. For the year ending May 2, 2009, the Company's average floating-rate indebtedness

was \$772.2 of which \$420.0 has been hedged with interest rate swaps. Accordingly, a difference of 0.25 percent in the applicable interest rate would impact net earnings by \$0.6 and other comprehensive income by \$1.5.

FOREIGN CURRENCY EXCHANGE RISK

The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for 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 Company estimates that a 10 percent increase (decrease) in applicable foreign currency exchange rates would impact net earnings by \$6.1 and other comprehensive income by \$1.6.

COMMODITY PRICE RISK

Commodity price risk is the risk that the fair value of certain financial instruments or the Company's future cash flows will fluctuate as a result of changes in the market price of commodities. The Company has attempted to mitigate commodity price risk to electricity prices through the use of financial derivative swap contracts while closely monitoring other commodity prices to determine the appropriate course of action. The Company estimates that a 10 percent increase (decrease) in applicable commodity prices would impact other comprehensive income by \$0.6.

NOTE 23 Guarantees, Commitments and Contingent Liabilities

GUARANTEES AND COMMITMENTS

At May 2, 2009, the Company was contingently liable for letters of credit issued in the aggregate amount of \$55.3 (May 3, 2008 – \$60.3).

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 2, 2009, these loans amounted to approximately \$0.5 (May 3, 2008 – \$1.3).

During 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 \$6.0 or 9.9 percent (2008 – \$5.0 or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 2, 2009, the amount of the guarantee was \$6.0 (May 3, 2008 – \$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.

During the third quarter of fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract should a franchisee affiliate be unable to fulfill their lease obligation or other remedy, Sobeys would be required to fund the greater of \$4.0 or 10 percent of the authorized

and outstanding obligation annually. Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favorable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of VIEs. As at May 2, 2009, the amount of the guarantee was \$4.0.

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2010 is approximately \$25.5. The guaranteed lease commitments over the next five years are:

	Third Parties	
2010	\$	25.5
2011		14.8
2012		16.7
2013		11.4
2014		4.2
Thereafter		2.0

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2010 is approximately \$235.1 (\$308.4 gross less expected sub-lease income of \$73.3). The commitments over the next five fiscal years are:

	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2010	\$ 196.7	\$ 270.0	\$ 38.4	\$ 38.4
2011	176.3	246.2	37.6	37.6
2012	162.6	228.7	34.5	34.5
2013	154.2	215.5	34.0	34.0
2014	147.7	203.9	35.4	35.4
Thereafter	965.3	1,354.3	407.0	407.0

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 of its obligations under the lease. The remaining term of the lease is 11 years with an aggregate obligation of \$34.6 (2008 – \$37.5). 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 had been reassessed in respect to the tax treatment of gains realized on the sale of shares in Hannaford Bros. Co. ("Hannaford") in fiscal 2001. The Company had appealed the reassessments in respect of the sale of Hannaford shares. Subsequent to May 2, 2009, the Company and CRA concluded negotiations and jointly requested a court order which, if approved, would result in a reduction of income tax expense of approximately \$17.0 in the first quarter of fiscal 2010.

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 24 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 provided

Crombie REIT with fixed rate second mortgages in the amount of \$6.2. The second mortgages have a weighted average interest rate of 5.38% with a maturity date of March 2014. In addition, the Company has non-interest bearing notes payable to Crombie REIT in the amount of \$10.5.

NOTE 25 Employee Future Benefits

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

DEFINED CONTRIBUTION PENSION PLANS

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

OTHER BENEFIT PLANS

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

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, 2008	May 1, 2011
Senior Management Pension Plan	May 1, 2008	May 1, 2011
Other Benefit Plans	May 1, 2008	May 1, 2011

DEFINED CONTRIBUTION PLANS

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

2009	\$	19.1
2008		18.6

DEFINED BENEFIT PLANS

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

	Pension Benefit Plans 2009	Pension Benefit Plans 2008	Other Benefit Plans 2009	Other Benefit Plans 2008
Accrued benefit obligation				
Balance, beginning of year	\$ 269.1	\$ 288.7	\$ 116.4	\$ 116.6
Current service cost, net of employee contributions	1.8	2.2	3.8	2.7
Interest cost	14.3	13.9	6.7	6.1
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.2)	(20.5)	(3.3)	(3.5)
Past service costs	0.2	0.1	–	–
Actuarial gains	(15.7)	(15.6)	(15.1)	(5.5)
Balance, end of year	\$ 249.8	\$ 269.1	\$ 108.5	\$ 116.4
Plan assets				
Market value, beginning of year	\$ 252.5	\$ 283.3	\$ –	\$ –
Actual return on plan assets	(36.4)	(13.0)	–	–
Employer contributions	5.8	2.5	3.3	3.4
Employee contributions	0.3	0.3	–	–
Benefits paid	(20.1)	(20.5)	(3.3)	(3.4)
Surplus payments to members	–	(0.1)	–	–
Market value, end of year	\$ 202.1	\$ 252.5	\$ –	\$ –
Funded status				
Deficit	\$ (47.7)	\$ (16.5)	\$ (108.5)	\$ (116.4)
Unamortized past service cost	0.4	0.4	0.6	0.6
Unamortized actuarial losses (gains)	86.1	50.8	(10.5)	5.1
Accrued benefit asset (liability)	\$ 38.8	\$ 34.7	\$ (118.4)	\$ (110.7)
Expense				
Current service cost, net of employee contributions	\$ 1.8	\$ 2.2	\$ 3.8	\$ 2.6
Interest cost	14.3	13.9	6.6	6.1
Actual return on plan assets	36.4	13.0	–	–
Actuarial gains	(15.6)	(15.6)	(15.0)	(5.5)
Past service costs	0.1	0.1	–	–
Surplus payments to members	–	0.1	–	–
Expense (income) before adjustments	37.0	13.7	(4.6)	3.2
Expected vs. actual return on plan assets	(53.4)	(32.2)	–	–
Recognized vs. actual past service costs	0.1	0.1	0.1	0.1
Recognized vs. actuarial gains (losses)	18.0	16.0	15.5	5.0
Net expense (income)	\$ 1.7	\$ (2.4)	\$ 11.0	\$ 8.3
Classification of accrued benefit asset (liability)				
Other asset	\$ 63.1	\$ 58.2	\$ –	\$ –
Other liability	(24.3)	(23.5)	(118.4)	(110.7)
Accrued benefit asset (liability)	\$ 38.8	\$ 34.7	\$ (118.4)	\$ (110.7)

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

	Pension Benefit Plans 2009	Pension Benefit Plans 2008	Other Benefit Plans 2009	Other Benefit Plans 2008
Accrued benefit obligation	\$ 24.3	\$ 23.5	\$ 118.4	\$ 110.7

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows (weighted-average assumptions as of May 2, 2009):

	Pension Benefit Plans 2009	Pension Benefit Plans 2008	Other Benefit Plans 2009	Other Benefit Plans 2008
Discount rate	6.25%	5.25%	6.00%	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 percent fiscal 2009 annual rate of increase in the per capita cost of covered health care benefits was assumed. The cumulative rate expectation to 2019 is 5 percent. The EARSL 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 EARSL of the active employees covered by the other benefit plans range from 11 to 15 years with a weighted average of 14 years at year end.

The table below outlines the sensitivity of the fiscal 2009 key economic assumptions used in measuring the accrued benefit plan obligation and related expense of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligation or benefit plan expense.

	Pension Plans		Other Benefit Plans	
	Benefit Obligation	Benefit Cost ⁽¹⁾	Benefit Obligation	Benefit Cost ⁽¹⁾
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		\$ (2.0)		
1% decrease		\$ 2.0		
Discount rate ⁽²⁾	6.25%	6.25%	6.00%	6.00%
Impact of: 1% increase	\$ (25.9)	\$ 0.2	\$ (15.1)	\$ (0.9)
1% decrease	\$ 29.1	\$ (0.5)	\$ 18.1	\$ 1.0
Growth rate of health costs ⁽³⁾			9.00%	9.00%
Impact of: 1% increase			\$ 14.5	\$ 1.8
1% decrease			\$ (12.2)	\$ (1.4)

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

(2) 6.00% for the Employee Pension Plan and the Post Retirement Benefit Plan

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

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

	2009	2008
Cash and short-term investments	3.43%	2.91%
Bonds, debentures, fixed income pooled funds and real estate funds	36.09%	25.51%
Equities and pooled equities fund	60.52%	70.26%
Accrued interest and dividends	0.21%	0.26%
Foreign currency hedges	(0.25%)	1.06%
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:

	2009	% of Plan Assets	2008	% of Plan Assets
	\$ 104.4	13.7%	\$ 80.8	9.0%

NOTE 26 Business Acquisitions

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

certain franchise stores and non-franchise stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over its estimated useful life.

	2009	2008
Franchisees		
Inventory	\$ 8.7	\$ 6.6
Property and equipment	5.9	5.1
Intangibles	7.6	5.9
Goodwill	14.3	1.2
Other assets (liabilities)	0.9	(1.5)
Cash consideration	37.4	17.3
Prescription files		
Intangibles	3.2	2.5
Net assets acquired	40.6	19.8
Less promissory note issued	(3.5)	—
Cash consideration	\$ 37.1	\$ 19.8

ETL Canada Holdings Limited (a subsidiary of the Company) acquired all of the outstanding shares of an incorporated joint venture already co-owned by the Company for cash consideration of \$4.3. The acquisition was accounted for using the purchase method with net identifiable assets recorded at \$3.6 (including intangible assets of \$0.2) and goodwill at \$0.7.

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 to measure and allocate the excess consideration paid over net assets acquired. The final purchase price allocation, incorporating management's assessment of fair value, was as follows:

Consideration	
Cash	\$ 250.4
Acquisition costs	3.2
<hr/>	
Total consideration paid	253.6
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Net assets acquired	
Current assets	41.4
Long-term assets	36.9
Current liabilities assumed	(43.6)
Long-term liabilities assumed	(13.1)
<hr/>	
Total net assets acquired	21.6
<hr/>	
Excess consideration paid over net assets acquired	\$ 232.0
<hr/>	
Allocation of excess consideration paid over net assets acquired	
Intangible assets – Banner	\$ 24.0
– Other	1.9
Goodwill	206.1
<hr/>	
	\$ 232.0
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NOTE 27 Stock-Based Compensation

DEFERRED SHARE UNITS

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred share units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At May 2, 2009, there were 84,195 (May 3, 2008 – 64,877) DSUs outstanding. During the year, the compensation expense was \$1.8 (2008 – \$0.5).

STOCK OPTION PLAN

During fiscal 2009, the Company granted an additional 189,967 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. These options allow holders to purchase Non-Voting Class A Shares at \$40.26 per share and expire in June 2016. The options vest over four years with 50 percent of the options vesting only if certain financial

targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

The compensation cost relating to the year was determined to be \$1.2 (2008 – \$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 was \$1.2. The compensation cost was calculated using the Black-Scholes model with the following assumptions:

Expected life	8 years
Risk-free interest rate	3.50%
Expected volatility	20.1%
Dividend yield	1.75%

SHARE PURCHASE PLAN

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

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

PHANTOM PERFORMANCE OPTION PLAN

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. Upon implementation, the units had a three year vesting period with 33.3 percent of the units vesting each year. Subsequent issuances have a four year vesting period with 25.0 percent of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five year

period. The Company recognizes a compensation expense equal to the change in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any change in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as an accrued liability until settlement and is remeasured at each interim and annual reporting period of the Company. As at May 2, 2009, 1,069,413 (May 3, 2008 – 518,579) units were outstanding and the Company recognized \$6.1 (2008 – \$0.1) of compensation expense associated with this plan.

NOTE 28 Business Rationalization Costs

For the year ended May 2, 2009, severance costs of \$10.7 (2008 – \$(1.8)) have been incurred and recognized. The costs associated with the organizational change are recorded as incurred as cost of sales, selling and administrative expenses in the statement of earnings. The liability as of May 2, 2009 is \$12.2 (May 3, 2008 – \$5.9). Costs incurred as of May 2, 2009 were \$27.7.

NOTE 29 Variable Interest Entities

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

The Company has identified the following entities as VIEs:

FRANCHISE AFFILIATES

The Company has identified 271 (May 3, 2008 – 292) franchise affiliate stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

WAREHOUSE AND DISTRIBUTION AGREEMENT

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

NOTE 30 Subsequent Events

- a) On June 12, 2009, Sobeys repaid, although did not cancel, the \$75.0 credit facility which matures on November 8, 2010.
- b) On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of \$7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for \$30.0 of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9% to 47.4%.
- c) On July 23, 2009, Sobeys finalized an agreement to sell and leaseback a retail support centre located in Milton, Ontario to a third party. Proceeds on the sale will be \$51.0 resulting in a pre-tax gain of \$5.6. A long-term lease agreement has been agreed to for the use of the property with the gain being amortized over the term of the lease.

NOTE 31 Comparative Figures

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