

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

Forward-Looking Information

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

These forward looking statements include the following items:

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

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

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

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

Empire's Strategic Direction

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

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

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

Overview

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

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

Food Retailing

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

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

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

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

Real Estate

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

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

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

Investments and Other Operations

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

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

Highlights

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

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

Summary Table of Consolidated Financial Results

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

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

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

Outlook

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

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

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

Food Retailing Division

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

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

Real Estate Division

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

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

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

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

Shareholder Return

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

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

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

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

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

Non-GAAP Financial Measures

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

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

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

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

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

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

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

Management's Explanation of Fiscal 2011 Annual Consolidated Results

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

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

Sales

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

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

Operating Income

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

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

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

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

Interest Expense

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

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

Income Tax Expense

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

Earnings before Capital Gains and Other Items

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

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

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

Capital Gains and Other Items, Net of Tax

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

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

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

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

Net Earnings

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

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

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

Fiscal 2011 Financial Performance by Division

Food Retailing

Highlights

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

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

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

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

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

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

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

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

Sales

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

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

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

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

Business Process and Information Systems Transformation and Rationalization Costs

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

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

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

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

EBITDA

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

Operating Income

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

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

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

Earnings before Capital Gains (Losses) and Other Items

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

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

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

Net Earnings

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

Real Estate

Highlights

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

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

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

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

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

(1) Equity accounted earnings in Crombie REIT.

Revenue

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

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

Operating Income

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

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

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

Net Earnings

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

Funds from Operations

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

Investments and Other Operations

Highlights

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

Investment Value

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

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

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

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

(2) Assumes market value equals book value.

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

Sale of Wajax Income Fund

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

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

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

Sales

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

Operating Income

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

Earnings before Capital Gains and Other Items

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

Capital Gains and Other Items, Net of Tax

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

Net Earnings

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

Quarterly Results of Operations

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

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

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

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

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

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

Summary Table of Consolidated Financial Results for the Fourth Quarter

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

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

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

Sales

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

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

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

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

Operating Income

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

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

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

Interest Expense

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

Income Tax Expense

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

Earnings before Capital Gains and Other Items

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

Capital Gains and Other Items, Net of Tax

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

Net Earnings

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

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

Consolidated Financial Condition

Capital Structure and Key Financial Condition Measures

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

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

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

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

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

Shareholders' Equity

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

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

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

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

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

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

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

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

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

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

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

Liabilities

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

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

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

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

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

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

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

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

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

Financial Instruments

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

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

In-Place Financial Instruments

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

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

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

Fair Value Methodology

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

Operating Activities

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

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

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

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

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

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

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

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

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

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

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

Investing Activities

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

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

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

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

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

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

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

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

Sobeys' Corporate and Franchised Store Construction Activity

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

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

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

Sobeys' Square Footage Changes

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

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

Financing Activities

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

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

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

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

Guarantees and Commitments

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

Gross Obligations Excluding Lease Income

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

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

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

Franchise Affiliates

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

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

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

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

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

Other

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

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

Free Cash Flow

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

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

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

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

Controls and Accounting Policies

Transition to International Financial Reporting Standards

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

Project Status

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

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

	Key Activities	Milestones/Deadlines	Progress to Date
Training and Communication (continued)		<ul style="list-style-type: none"> Ongoing monitoring of future developments of standards and interpretations to occur until completion of IFRS implementation. 	<p>accounting policy and dual reporting year requirements.</p> <ul style="list-style-type: none"> Frequent project status communications have been provided to internal and external stakeholders. Frequent attendance by key personnel at relevant seminars, participation in industry peer groups and utilization of key technical resources. Ongoing monitoring of future developments of standards and interpretations through review of the International Accounting Standards Board (“IASB”) work plan and current projects.

Information Systems	<ul style="list-style-type: none"> Determine if business processes require change to be IFRS compliant. Determine if software requires upgrades, changes, or additions to support IFRS reporting requirements. 	<ul style="list-style-type: none"> IT implementation approach to be completed in fiscal 2010. Changes to systems and dual record-keeping process to be completed at the beginning of fiscal 2011. Preparation of quarterly financial information during fiscal 2011 to produce comparative information required in the Company's fiscal 2012 IFRS financial statements. 	<ul style="list-style-type: none"> Assessment of business processes is underway in conjunction with work on accounting policies. Completed IT implementation plan in fiscal 2010 to address new information requirements under IFRS particularly related to a significant increase in note disclosures. Changes to information systems required to prepare the opening balance sheet and gather appropriate information for dual reporting for fiscal 2011 have been completed. Quarterly financial information for the fiscal 2011 comparative year is being completed.
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	Key Activities	Milestones/Deadlines	Progress to Date
Contractual Arrangements and Compensation	<ul style="list-style-type: none"> Assess the affect of IFRS on: <ul style="list-style-type: none"> Financial covenants Compensation arrangements Budgeting and planning Make any required changes to plans and arrangements. 	<ul style="list-style-type: none"> Complete necessary covenant negotiations during fiscal 2011. Complete review of compensation arrangements during fiscal 2011. Complete budgeting plan during fiscal 2011. 	<ul style="list-style-type: none"> IFRS adjustments have been assessed in the analysis of contractual arrangements and compensation. Additionally, key performance indicators ("KPI") and budgeting IFRS project groups have been formed to assess transition impacts. Budgets have been updated for anticipated IFRS impacts.
Control Environment	<ul style="list-style-type: none"> Assess, design, and implement internal controls over financial reporting ("ICFR") for all accounting policy changes. Assess, design, and implement disclosure controls and procedures ("DC&P") for all identified accounting policy changes. 	<ul style="list-style-type: none"> Changes to ICFR and DC&P completed during fiscal 2011. Test and evaluate revised controls throughout fiscal 2011. Update Chief Executive Officer/Chief Financial Officer certification process by the end of fiscal 2011. 	<ul style="list-style-type: none"> Analysis of control issues is underway in conjunction with the review of IFRS accounting issues and policies. There have been no material adjustments to the internal control processes in place around financial reporting and disclosures as a result of the transition to IFRS and none anticipated. MD&A disclosures have been regularly reviewed and updated with changes in the project status. IFRS Communications Committee, which includes Investor Relations, has been assembled and is engaged.

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

Significant Changes in Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

First Time Adoption of IFRS

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

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

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

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

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

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

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

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

Critical Accounting Estimates

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

Pension, Post-Retirement and Post-Employment Benefits

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

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

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

The table below outlines the sensitivity of the fiscal 2011 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligation or benefit plan expenses.

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

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

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

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

Goodwill and Long-Lived Assets

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

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

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

Income Taxes

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

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

Valuation of Inventories

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

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

Controls and Procedures

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

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

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

Related-Party Transactions

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

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

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

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

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

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

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

Subsequent Events

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

Employee Future Benefit Obligations

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

Designation for Eligible Dividends

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

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

Contingencies

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

On June 21, 2005 Sobeys received a notice of reassessment from CRA for fiscal years 1999 and 2000 related to Lumsden Brothers Limited (“Lumsden”), a wholesale subsidiary of Sobeys, and the Goods and Service Tax (“GST”). The reassessment related to GST on sales of tobacco products to status Indians. CRA asserts that Lumsden was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the reassessment amounts to \$13.6 million. Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. During the second quarter of fiscal 2006, Sobeys filed a Notice of Objection with CRA. Accordingly, Sobeys has not recorded in its statements of earnings any of the tax, interest or penalties in the notice of reassessment. Sobeys has deposited with CRA funds to cover the total tax, interest and penalties in the reassessment and has recorded this amount as an other long-term receivable from CRA pending resolution of the matter.

There are various claims and litigation, which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

Risk Management

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

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

Competition

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

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

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

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

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

Financial

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

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

Liquidity Risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial obligations as they come due. The Company actively maintains committed credit facilities to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost. The Company monitors capital markets and the related economic conditions. Market conditions allowing, the Company will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk and optimize pricing.

Interest Rate Risk

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

Insurance

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

Human Resources

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

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

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

Business Continuity

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

Environmental, Health and Safety

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

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

Occupational Health and Safety

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

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

Food Safety and Security

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

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

Technology

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

Real Estate

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

Legal, Taxation and Accounting

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

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

Operations

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

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

Supply Chain

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

Seasonality

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

Product Costs

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

Utility and Fuel Prices

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

Foreign Operations

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

Foreign Currency

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

Ethical Business Conduct

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

Information Management

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

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

Capital Allocation

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

Access to Capital

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

Economic Environment

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

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

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