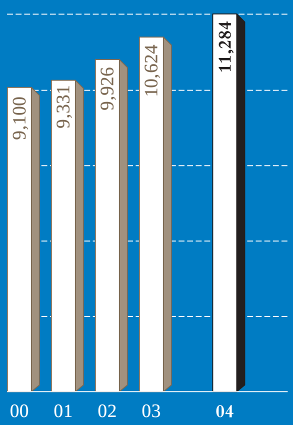
Management's Discussion and Analysis

Revenue increased 6.2 percent in fiscal 2004, primarily the result of continued growth in our food distribution and real estate businesses.

Operating earnings per share increased 2.5 percent to $2.49 a share, compared to $2.43 last year.

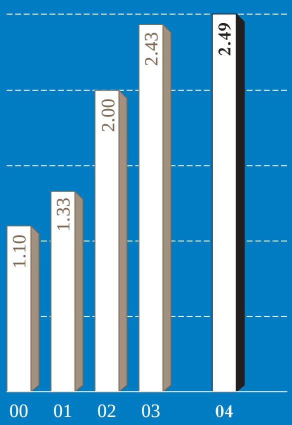
Shareholders' equity increased 10.5 percent in fiscal 2004, primarily as a result of a 12.5 percent increase in net earnings.

TOTAL REVENUE[1]
($ in millions)



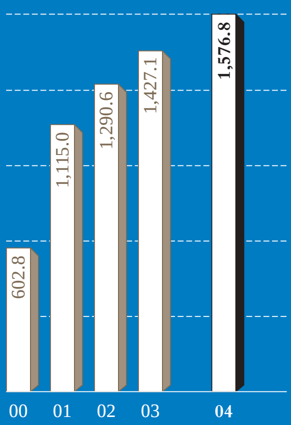
YEAR ENDED APRIL 30TH
(1) Includes gain of $14.6 million on sale of redundant real estate in fiscal 2004.

OPERATING EARNINGS PER SHARE[1]
($ per share)



YEAR ENDED APRIL 30TH
(1) Earnings before net capital gain (loss) and other items.

SHAREHOLDERS' EQUITY
($ in millions)



YEAR ENDED APRIL 30TH

CONTENTS

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") section of the Annual Report contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the fiscal year ended April 30, 2004, as compared to the same period last year. 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. The information in this MD&A is current to June 24, 2004, unless otherwise noted.

In December 2003, the Canadian securities regulators released National Instrument 51-102 ("NI51-102"), "Continuous Disclosure Obligations." New disclosures have been introduced in this MD&A in compliance with NI51-102.

This discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto for the fiscal year ended April 30, 2004 and the fiscal year ended April 30, 2003 respectively.

This discussion may contain forward-looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. In addition to the risks outlined in the Risk Management section, factors which could cause actual events or events to differ include, but are not limited to: the ability to execute on operating company strategic initiatives; the impact of competition; general economic conditions; interest rate and currency exchange rate fluctuations; conditions affecting the North American equity markets; conditions affecting the growth and development of our real estate property portfolio; the ability of our operating companies to attract and retain quality employees and franchisees; the availability of capital and the associated cost of capital. As a result of these risk factors and others, no guarantee can be given that the results implied by any forward-looking statements will necessarily materialize.

DEFINING NON-GAAP MEASURES There are measures included in this MD&A that do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similarly titled measures presented by other companies.

The Company includes these measures because it believes certain investors use these measures as a means of evaluating relative financial performance. Empire's definition of the non-GAAP terms are as follows:

- EBITDA is calculated as operating income plus depreciation and intangible amortization.
- Operating Income or EBIT is calculated as operating earnings plus interest expense and income taxes plus goodwill amortization.
- Operating earnings is calculated as net earnings before net capital gains (losses) and other items.
- Funds from operations is calculated as operating earnings plus depreciation expense.
- Interest coverage is calculated as operating income divided by interest expense.
- Net working capital is calculated as receivables plus inventories, plus prepaid expenses, less accounts payable and accrued liabilities, less the current portion of future income taxes payable.
- Funded debt is calculated as bank indebtedness plus long-term debt due within one year, plus long-term debt.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity.
- Net asset value is management's estimate of the market value of the Company's assets less liabilities.

Company Overview

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses consist of: retail food distribution through a 65.0 percent ownership interest in Sobeys Inc. ("Sobeys"); real estate through two wholly-owned operating subsidiaries, Sobey Leased Properties Limited and Crombie Properties Limited ("Crombie"), which includes a 35.8 percent ownership interest in Genstar Development Partnership ("Genstar"); other operations including wholly-owned Empire Theatres Limited; and corporate investment activities.

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

With assets of $4.7 billion, Empire employs approximately 34,000 people directly and through its subsidiaries.

FOOD DISTRIBUTION Empire's food distribution operations are carried on through its 65.0 percent ownership in Sobeys. Headquartered in Stellarton, Nova Scotia, Sobeys is a leading national retail grocery and food distributor. Founded in Atlantic Canada in 1907, Sobeys owns or franchises more than 1,300 corporate and franchised food stores located in all 10 provinces under various retail banners; including Sobeys, IGA extra, IGA, and Price Chopper. Sobeys and its franchisees collectively generate approximately $11.05 billion in retail sales annually.

Sobeys continues to attract new customers and sales with right-sized stores and a focus on food, driven by its fresh food expertise and well-communicated and well-executed offerings. Sobeys' vision is to build sustainable worth by being the most worthwhile experience for its customers, employees, franchisees, suppliers and shareholders.

REAL ESTATE Empire's real estate operations are focused on the development and management of its existing commercial property portfolio and through Genstar its residential business, while also pursuing accretive acquisitions and developments, primarily in Ontario.

At the end of fiscal 2004, real estate operations had 12.9 million square feet under ownership compared to 12.2 million square feet last year. Commercial real estate operations are conducted through Crombie and Sobey Leased Properties Limited, while residential land development is primarily conducted through Genstar, which operates principally in high growth communities in Ontario and Western Canada.

With the acquisition of six properties in Ontario on February 1, 2004, the real estate division now manages over 1.0 million square feet of property in Ontario and Quebec. The trend towards increasing the percentage of total property square footage in Ontario relative to the total portfolio is expected to continue.

Today, 87 percent of the gross leaseable area in Empire's real estate portfolio is retail space, of which 40 percent is leased to an Empire-affiliated company. The retail segment of the real estate portfolio includes 73 properties. The commercial real estate portfolio also includes 9 office properties, representing 13 percent of total gross leaseable area.

INVESTMENTS AND OTHER OPERATIONS The third component of Empire's business is its investments and other operations. Empire's investment portfolio consists of Canadian and U.S. equity investments. At fiscal year-end, Empire's investments carried a market value of $390.9 million consisting of Canadian common equity investments valued at $271.6 million, foreign common equities valued at $117.8 million in Canadian dollars, and preferred equities and other investments valued at $1.5 million. The Canadian common equity investment market value includes the market value of Empire's equity accounted investment in Wajax Limited (a 47.5 percent ownership position) of $78.3 million at fiscal year-end. All of Empire's investments are listed on a recognized public stock exchange.

Other operations primarily consist of wholly-owned Empire Theatres Limited ("Empire Theatres" or "Theatres"), a movie exhibitor with 149 screens in 22 locations in Atlantic Canada and through a joint venture, 14 screens and four locations in Western Canada. Subsequent to fiscal year-end, on June 15, 2004, Empire Theatres announced the purchase of four cinemas operating 23 screens from Famous Players, a division of Viacom Canada Inc., in Nova Scotia and New Brunswick.

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.

The strategic direction of the Company is to stay the course by continuing to direct energy and capital towards growing the long-term sustainable value of each of its core operating businesses – food distribution, real estate and theatres. While these respective core businesses are well established and profitable in their own right, the diversification they offer Empire by both business line and by market area is considered by management to be an additional source of strength. Together, these core businesses reduce risk and volatility, thereby contributing to consistency in consolidated earnings growth over the long term. Going forward, the Company intends to continue to direct its resources towards the most promising opportunities within these core businesses in order to maximize long-term shareholder value.

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

The Company also remains committed to holding an investment portfolio consisting largely of high quality common equities. A liquid investment portfolio provides Empire with the opportunity to augment earnings while waiting to make further investment in its core operations as attractive opportunities unfold. Historically the Company has been successful in generating investment returns in excess of the Company's cost of capital and well in excess of returns that would otherwise have been generated by investing in money market investments.

Consolidated Operating Results

CONSOLIDATED FINANCIAL RESULTS SUMMARY

Years Ended April 30th *($ in millions, except per share information)*	2004	% Change over 2003	2003	% Change over 2002	2002	% Change over 2001
Revenue						
Food Distribution (1)	$ 11,061.4	6.2 %	$ 10,414.5	7.0 %	$ 9,732.5	6.2 %
Real Estate, net of inter-segment	158.2	6.0 %	149.2	8.3 %	137.8	15.8 %
Other Operations	64.4	6.4 %	60.5	7.6 %	56.2	14.5 %
Consolidated revenue	$ 11,284.0	6.2 %	$ 10,624.2	7.0 %	$ 9,926.5	6.4 %
Operating income						
Food Distribution	$ 294.5	(9.3)%	$ 324.7	9.9 %	$ 295.4	28.6 %
Real Estate	111.1	7.0 %	103.8	3.2 %	100.6	22.2 %
Investments and Other	18.0	9.7 %	16.4	(18.8)%	20.2	(30.6)%
Consolidated operating income	423.6	(4.8)%	444.9	6.9 %	416.2	22.0 %
Interest expense	91.6	(1.4)%	92.9	(16.8)%	111.6	(23.5)%
Income taxes (from operating activities)	109.2	(12.1)%	124.3	6.1 %	117.1	60.2 %
Goodwill amortization	–	–	–	–	9.5	2.2 %
Minority interest	58.9	(13.1)%	67.8	24.4 %	54.5	224.7 %
Earnings from discontinued operations	–	–	–	–	8.7	(13.0)%
Operating earnings	163.9	2.5 %	159.9	20.9 %	132.2	49.4 %
Capital gain (loss) and other items, net of tax	9.2	253.3 %	(6.0)	(143.8)%	13.7	(97.2)%
Gain on sale of discontinued operations	–	–	–	–	50.0	–
Net earnings	$ 173.1	12.5 %	$ 153.9	(21.4)%	$ 195.9	(66.2)%
Cash flows from operating activities	$ 467.0	31.3 %	$ 355.8	(42.7)%	$ 621.1	257.4 %
Total assets	$ 4,681.7	3.7 %	$ 4,516.1	4.6 %	$ 4,318.0	1.5 %
Total long-term liabilities	$ 1,684.5	(1.0)%	$ 1,701.5	1.5 %	$ 1,676.2	2.3 %
PER SHARE, BASIC AND FULLY DILUTED						
Operating earnings	$ 2.49	2.5 %	$ 2.43	21.5 %	$ 2.00	50.4 %
Capital gain (loss) and other items, net of tax	0.14	255.5 %	(0.09)	(142.8)%	0.21	(97.2)%
Gain on sale of discontinued operations	–	–	–	–	0.76	–
Net earnings	$ 2.63	12.4 %	$ 2.34	(21.2)%	$ 2.97	(66.3)%
Basic and diluted weighted average number of shares outstanding	65.8	–	65.8	0.2 %	65.7	–
Dividends	$ 0.4000	21.2 %	$ 0.3300	54.3 %	$ 0.2138	25.8 %

(1) Includes a $14.6 million gain on the sale of redundant real estate which Empire has recorded in revenue in fiscal 2004.

Explanation of Fiscal 2004 Annual Results

Each of Empire's operating businesses contributed to the growth in the Company's consolidated revenue in fiscal 2004 over the prior fiscal year; an increase of $659.8 million or 6.2 percent. Revenue and financial performance for each of the Company's businesses (food distribution; real estate; investments and other operations) are discussed in detail in further sections of this MD&A.

OVERALL OPERATING PERFORMANCE The revenue increase of $659.8 million or 6.2 percent in fiscal 2004, to $11.28 billion, is largely attributed to an increase in food division revenues of $646.9 million or 6.2 percent over the prior year. Included in food division revenues is a $14.6 million gain on the sale of redundant real estate. Growth in real estate revenues (net of inter-segment) totaled $9.0 million or 6.0 percent, while other operations recorded revenue growth of $3.9 million or 6.4 percent, primarily as a result of strong revenue growth at Empire Theatres.

DEPRECIATION EXPENSE Depreciation expense increased by $27.8 million or 19.3 percent over the prior year, largely reflecting Sobeys' ongoing capital investment in its retail store network.

OPERATING INCOME The year-over-year decrease in operating income or EBIT of $21.3 million or 4.8 percent is the result of a $30.2 million decline in operating income contribution from the food distribution, partially offset by a $7.3 million or 7.0 percent increase in operating income for the real estate division and a $1.6 million or 9.8 percent increase in operating income for investments and other operations. The year-over-year change in operating income for each division is explained in further sections of this MD&A.

INTEREST EXPENSE Interest on long-term debt declined $3.8 million, or 4.2 percent largely as a result of $187.8 million of long-term debt repayments made during the year compared to $14.9 million of new long-term debt issued during the fiscal year. Interest expense on short-term debt increased $2.5 million largely as a result of an increase in bank indebtedness of $41.5 million over the prior year.

The majority of the Company's debt remains at fixed rates and therefore there is minimal exposure to interest rate risk from fluctuating short-term interest rates.

INCOME TAXES The fiscal 2004 effective tax rate was 32.9 percent compared to 35.3 percent for fiscal 2003. The year-over-year change is primarily a result of reduced statutory tax rates. Total income tax expense (from operating activities) for fiscal 2004 equaled $109.2 million versus $124.3 million recorded last year, as a result of lower taxable earnings in fiscal 2004 as well as the lower effective income tax rate.

BELOW: **DISTRIBUTION CENTRE,** Debert, Nova Scotia *PICTURED:* Tim Cosh, Sobeys' Employee; **COMMISSO'S MARKET PLAZA,** Hamilton, Ontario

MINORITY INTEREST The Company incurs minority interest expense as a consequence of not owning 100.0 percent of Sobeys. Fiscal 2004 minority interest equaled $58.9 million, a decrease of $8.9 million or 13.1 percent from the $67.8 million recorded in 2003. The decline in minority interest is attributed to an increase in Empire's ownership interest in Sobeys, from 62.0 percent last year to 65.0 percent at the end of 2004, along with Sobeys reporting an $11.5 million decline in net earnings relative to last year.

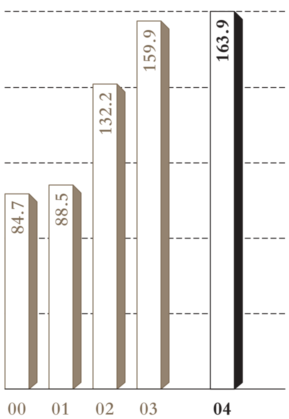
Empire purchased a total of 1.97 million common shares of Sobeys between July 1, 2003 and April 30, 2004 resulting in the increase in ownership of Sobeys. These share purchases totaled $67.7 million and were funded through the sale of portfolio common equity investments and bank indebtedness.

OPERATING EARNINGS The $4.0 million improvement in operating earnings (earnings before net capital gain (loss) and other items) over last year was the result of the interaction of the 6.2 percent growth in sales as explained, the 4.8 percent decline in operating income, the 1.4 percent reduction in interest expense, the 12.1 percent reduction in income tax expense, and the 13.1 percent decline in minority interest as previously discussed.

NET CAPITAL GAIN (LOSS) Net capital gain of $9.2 million primarily resulted from the sale of portfolio investments during the year (2003 – $6.0 million net capital loss).

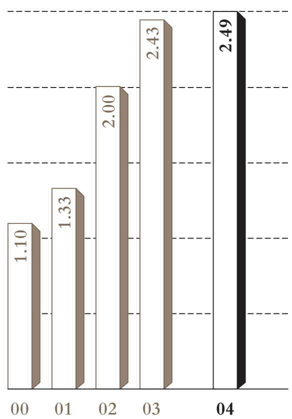
NET EARNINGS The increase in net earnings of $19.2 million or 12.5 percent from last year is the result of the $4.0 million increase in operating earnings as discussed and the increase in net capital gain (loss) over the prior year of $15.2 million.

OPERATING EARNINGS[1]
($ in millions)



YEAR ENDED APRIL 30TH
(1) Earnings before net capital gain (loss) and other items.

OPERATING EARNINGS PER SHARE[1]
($ per share)



YEAR ENDED APRIL 30TH
(1) Earnings before net capital gain (loss) and other items.

BELOW: **SOBEYS *express*,** Truro, Nova Scotia; **EMPIRE THEATRES STUDIO 7,** Lower Sackville, Nova Scotia

ABOVE: **SOBEYS FAST FUEL,** Tantallon, Nova Scotia; **SOBEYS QUEENSWAY,** Toronto, Ontario

Operating Performance by Division and Outlook

Food Distribution Division

HIGHLIGHTS

- Sobeys achieved sales growth of 6.1 percent and same-store sales growth of 1.4 percent.
- EBITDA as a percentage of sales declined to 4.04 percent compared to 4.32 percent last year.
- Total capital expenditures equaled $316.1 million (total company-wide capital expenditures, which includes franchisee and third party spending, equaled $552.9 million).
- Opened or replaced 61 new stores, renovated or expanded 28 stores, completed banner conversions on 89 stores and, in February 2004, acquired six cash and carry's and 15 Commisso's stores.
- In Western Canada the Sobeys brand and Ready to serve were launched through the conversion of 36 IGA Garden Market stores to Sobeys bannered stores.
- Expanded the "We Serve, You Save" program across most of Sobeys and launched the "Hometown Advantage" program in its community format IGA stores.
- Introduced its new "prototype" Sobeys *express* convenience stores.

REVENUE In fiscal 2004, Sobeys recorded sales of $11.05 billion, an increase of $632.3 million or 6.1 percent over fiscal 2003. Sales increased in all operating regions.

Sobeys' same-store sales increased 1.4 percent despite little or no national food price inflation throughout the fiscal year. The growth in revenue was the result of: Sobeys increased retail selling square footage; the fourth quarter impact of the Commisso's acquisition; Sobeys' aggressive pricing posture and the continued implementation of sales and merchandising initiatives across the country; and Sobeys' ongoing financial commitment to upgrade and renovate existing store assets. Management continues to focus on the opportunity to increase sales per square foot in its 24.1 million square foot retail network. Increased merchandising intensity, improved marketing, and enhanced in-store promotional programs have targeted a larger share of current customers' requirements in order to increase transaction size with its existing customer base.

Store square footage increased by 6.6 percent in fiscal 2004 as a result of the opening of 61 new stores, the expansion of 18 stores, and the acquisition of 15 Commisso's stores.

Sobeys expects continued sales growth in fiscal 2005 as a result of the ongoing capital investment in its retail store network, the full-year benefit of the Commisso's acquisition and continued store offering, merchandising and pricing improvements across Sobeys.

EBITDA AND OPERATING INCOME Sobeys' EBITDA margin declined to 4.04 percent of sales from 4.32 percent last year, a decrease of 28 basis points. This decrease was primarily due to the impact of lower retail prices in increasingly competitive markets. Competitive pressure in fiscal 2004 was particularly acute in the Ontario region. Existing system and process complexities in the Ontario business, including franchise and corporate store business management and process inefficiencies, compounded the heightened competitive intensity, to significantly reduce the earnings in the region. As a result, the Ontario region was the primary contributor to Sobeys' overall earnings decline. Sobeys has been actively addressing the business model and process complexity issues. In March, Sobeys announced the appointment of Craig Gilpin, an experienced Ontario retail executive, to the position of President Operations, Sobeys Ontario, to lead the ongoing simplification of the Ontario business. Sobeys' productivity initiatives and business process optimization efforts will also enable performance improvement and simplification in the near and medium term.

The margin decline also reflects the short-term impact of Sobeys' acceleration of planned investments in its stores and offerings during the year, necessary to maintain and improve its competitive position while continuing to grow its total retail sales. The combination of lower retail selling prices arising from the Company's investments to remain competitive and relatively stable cost of goods sold resulted in lower gross profit percentages compared with the prior year.

In addition to the competitive environment, a number of factors contributed to the decline in operating income including: a reserve for the uninsured portion of the cost of the August 2003 power failure in Ontario ($4.9 million pre-tax); the adverse outcome in a long-standing real estate lawsuit ($4.0 million pre-tax); an increase in the estimate of store closing costs ($5.3 million pre-tax); and pension and benefit costs for employees on long-term disability ($4.8 million pre-tax).

Sobeys realized a pre-tax gain of $14.6 million in the fourth quarter related to the sale of redundant real estate.

Sobeys undertook a number of specific initiatives during the year which helped offset some of the margin decline. Sobeys continued to reduce distribution and logistics costs through improved productivity. Voice pick technology was implemented in Sobeys' distribution centres to improve both order selection accuracy and productivity. This technology enhances the order selection process, substantially reducing the frequency of selection errors. Sobeys also closed redundant distribution facilities in Grand Prairie and Peace River, Alberta, recording closure costs of $1.2 million pre-tax in its second quarter.

On January 31, 2004, the unionized employees at the food division's Milton, Ontario distribution centre ratified a new three-year collective agreement. The contract is consistent with Sobeys' commitment to building and sustaining a fair, equitable and competitive infrastructure and cost base for the long term.

In the future, the continued focus on increasing sales per square foot, banner rationalization, disciplined cost management and reduction, distribution efficiencies and migration of best practices across its four regions, are expected to positively impact Sobeys' operating income.

Sobeys' depreciation expense increased by $26.4 million year-over-year. Operating income or EBIT contribution by the food division amounted to $294.5 million in fiscal 2004, a decrease of $30.2 million or 9.3 percent from 2003.

NET EARNINGS Sobeys' fiscal year 2004 net earnings were $167.5 million compared with $179.0 million last year, a 6.4 percent decrease. Net earnings per share were $2.54 for fiscal 2004 compared to $2.72 per share in fiscal 2003.

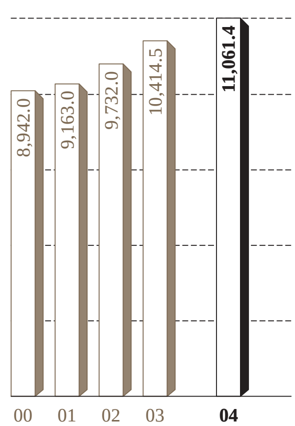
Sobeys' net earnings are the result of heightened competitiveness in the food retail business, increased depreciation expense, the other costs incurred as discussed, and investments made during the year.

Sobeys' contribution to Empire's net earnings equaled $108.1 million (62.4% of Empire consolidated net earnings) compared to $110.4 million the previous year, a 2.1 percent earnings reduction.

FOOD DIVISION OUTLOOK Sobeys' management believes that Sobeys is well positioned for growth throughout fiscal 2005 and is confident in its strategy. Sobeys' offerings will continue to improve in each operating region and Sobeys will remain competitive in increasingly competitive markets, as demonstrated in fiscal 2004. Sobeys' focus will continue to be on growing sales and earnings in fiscal 2005 and beyond in a sustainable manner over the long term.

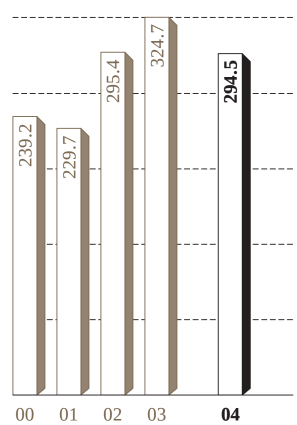
Sobeys is committed to building sustainable worth for all its constituents.

FOOD DISTRIBUTION REVENUE(1)
($ in millions)



YEAR ENDED APRIL 30TH
(1) Includes gain of $14.6 million on sale of redundant real estate in fiscal 2004.

FOOD DISTRIBUTION OPERATING INCOME
($ in millions)



YEAR ENDED APRIL 30TH

ABOVE: **DOWNSVIEW MALL,** Lower Sackville, Nova Scotia; **BRIDGEWATER MALL,** Bridgewater, Nova Scotia

Real Estate Division

HIGHLIGHTS

- Increased occupancy rate to 93.6 percent compared to 92.7 percent last year.
- Funds from operations increased 8.8 percent to $58.4 million.
- The real estate portfolio was strengthened and diversified through the redevelopment of existing properties, expansion of residential development through Genstar and property acquisitions in Ontario. Crombie purchased seven properties in Ontario resulting in over one million square feet of owned leaseable space in Ontario and Quebec.

The table below segments real estate division revenue, funds from operations and net earnings by commercial and residential operations.

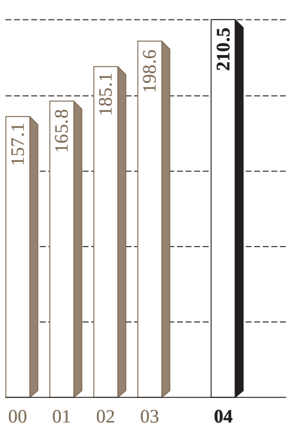
Years ended April 30th ($ in millions)	2004	% Change over 2003	2003	% Change over 2002
Revenue				
Commercial	$ 180.4	4.1 %	$ 173.3	3.6 %
Residential	30.1	19.0 %	25.3	41.3 %
	$ 210.5	6.0 %	$ 198.6	7.3 %
Inter-segment	(52.3)	5.9 %	(49.4)	4.4 %
	$ 158.2	6.0 %	$ 149.2	8.3 %
Funds from operations				
Commercial	$ 40.8	9.4 %	$ 37.3	6.0 %
Residential	17.6	7.3 %	16.4	26.2 %
	$ 58.4	8.8 %	$ 53.7	11.4 %
Net earnings				
Commercial	$ 24.9	18.0 %	$ 21.1	11.1 %
Residential	17.0	(4.5)%	17.8	18.3 %
	$ 41.9	7.7 %	$ 38.9	12.7 %

REVENUE Commercial property related revenue increased $7.1 million or 4.1 percent as a result of increased leasing activity, generally stronger rental renewal rates and property development and acquisition activity during the year. In the first quarter, Crombie acquired a community shopping centre property in Hamilton, Ontario. At the start of the fourth quarter, Crombie acquired six properties from Commisso's Properties Ltd. in Southwestern Ontario which added gross leaseable area of 0.5 million square feet.

Leasing activity has been generally stronger than anticipated with an overall (retail plus office) occupancy rate of 93.6 percent compared to 92.7 percent a year ago. The retail occupancy rate was 94.4 percent compared to 93.2 percent a year earlier. Office vacancy, although at 9.8 percent compared to 8.9 percent a year earlier, was below the average vacancy rate in the Halifax and Moncton markets, respectively. The majority of the Company's office space is located in the Halifax and Moncton markets.

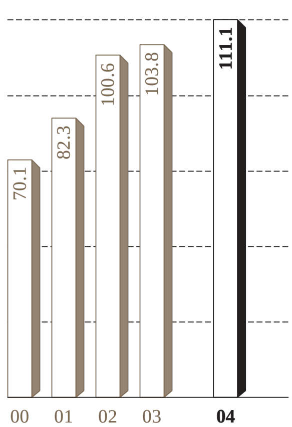
Revenue from residential activities increased $4.8 million or 19.0 percent as a result of stronger than expected lot sales in Genstar's Western Canadian operation, particularly in the Calgary and Edmonton markets.

REAL ESTATE REVENUE(1)
($ in millions)



YEAR ENDED APRIL 30TH
(1) Revenue is before inter-segment elimination.

REAL ESTATE OPERATING INCOME
($ in millions)



YEAR ENDED APRIL 30TH

OPERATING INCOME The $7.3 million or 7.0 percent increase in real estate division operating income for fiscal 2004 over the prior year was largely the result of a strong contribution from Genstar, successful redevelopment activities, higher net effective rental rates and lower operating costs. The real estate operation contributed 26.2 percent of Empire's total operating income in fiscal 2004 versus 23.3 percent a year earlier.

NET EARNINGS Real estate's contribution to Empire's fiscal 2004 net earnings was $41.9 million (24.2 percent of Empire consolidated net earnings), an increase of $3.0 million from the $38.9 million recorded in fiscal 2003. The increase is principally the result of the higher operating income earned in fiscal 2004.

Funds from operations (net income plus depreciation) increased 8.8 percent to $58.4 million from $53.7 million last year as a result of improved operating earnings performance.

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

Empire's real estate management group expects overall retail occupancy levels to remain strong during fiscal 2005 as a result of the diligence of our leasing team and general economic conditions.

ABOVE: **EMPIRE THEATRES STUDIO 7,** Lower Sackville, Nova Scotia

Investments and Other Operations

HIGHLIGHTS

- Empire's investments generated a 75.3 percent total return in fiscal 2004, resulting in first quartile return performance.
- Four-year annualized return performance for Empire's liquid portfolio investments was 10.0 percent compared to a negative 0.8 percent total return for the S&P/TSX Composite Index and a negative 7.9 percent total return for the S&P 500 Index, in Canadian dollars.
- Net investment capital gains of $9.4 million were realized in fiscal 2004 largely as a result of the sale of common equity investments.
- Empire Theatres continued to diversify its operations outside of Atlantic Canada through its joint venture arrangement with Landmark Cinemas of Canada Limited, which has resulted in four locations to date.

PORTFOLIO VALUE AT APRIL 30, 2004 At fiscal year-end, April 30, 2004, Empire's total investments (excluding cash) carried a market value of $390.9 million on a cost base of $324.7 million, resulting in an unrealized gain of $66.2 million. This compares to an unrealized gain of $46.7 million at the end of the third quarter and an unrealized loss of $68.7 million at the end of fiscal 2003.

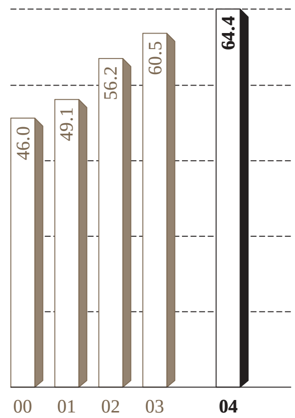
At April 30, 2004, Empire's investment portfolio (excluding cash) consisted of:

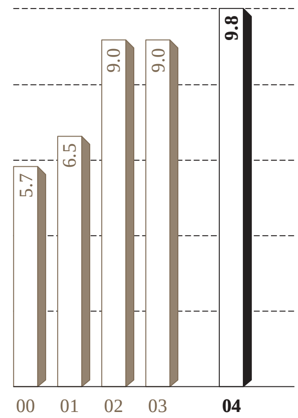
$ in millions (Canadian)	Market Value	% of Portfolio	Cost	Unrealized Gain (Loss)
Canadian equities	$ 193.3	49.5%	$ 153.8	$ 39.5
U.S. equities	117.8	30.1	122.7	(4.9)
Wajax	78.3	20.0	46.7	31.6
Preferred and other	1.5	0.4	1.5	–
	$ 390.9	100.0%	$ 324.7	$ 66.2

Empire's direct debt matched to these investments was $71.4 million Canadian at year-end, equivalent to 18 percent of total investment market value. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

REVENUE Investments and other operations' revenue, primarily generated by Empire Theatres, reached $64.4 million versus $60.5 million last year. Revenue growth at Empire Theatres was primarily the result of the availability of quality product and the modernization of existing locations. Empire Theatres had 149 screens in operation versus 141 at April 30, 2003.

INVESTMENT RETURN The total return on the Empire investment portfolio, as independently benchmarked against over 100 North American equity fund managers, has provided first quartile return performance for each of Canadian equities and U.S. equity investments over two and three-year trailing periods ended March 31, 2004, respectively. Total portfolio return for the twelve-month period ended March 31, 2004 was 75.3 percent. This compares to a 37.7 percent total return for the S&P/TSX Composite Index and a 20.5 percent total return for the S&P 500 Index in Canadian dollars over the same twelve-month period. Empire's investment return performance was ranked as being in the top 5th percentile for each of Canadian equities and U.S. equities over the twelve-month period ended March 31, 2004.





The tables below present the return performance for Empire's portfolio investments relative to Canadian and U.S. equity benchmarks over each of the last four years ended March 31st, as well as on a two, three and four-year compounded basis. Total portfolio return has been strong first quartile for 2004 and also on a two-year, three-year and four-year annualized basis.

TOTAL INVESTMENT RETURN(1)

(Annual Returns for Periods Ended March 31st)	2001	2002	2003	2004
Empire Investment Portfolio	20.8%	11.9%	-27.8%	50.0%
S&P/TSX Composite Index	-18.6%	4.9%	-17.6%	37.7%
S&P 500 Index (in Cdn.$)	-14.8%	1.4%	-30.7%	20.5%

TOTAL INVESTMENT RETURN(1)

(Annualized Compound Returns for Periods Ended March 31, 2004)	2-year	3-year	4-year
Empire Investment Portfolio	5.2%	6.6%	10.0%
1st Quartile Manager Return	2.8%	3.9%	3.1%
Median Manager Return	0.9%	1.5%	-0.5%
S&P/TSX Composite Index	6.5%	6.0%	-0.8%
S&P 500 Index (in Cdn.$)	-8.6%	-5.4%	-7.9%

(1) Excludes the total return on Wajax Limited which is an equity accounted investment. With the total return on Wajax Limited included, total return for the twelve-month period ended March 31, 2004 was 75.3 percent.

Despite the volatility in equity markets, management continues to believe that equity market returns will be superior to either fixed income or money market investment returns over the long term. Empire remains committed to prudently managing a high quality, liquid portfolio of common equities.

PERFORMANCE ATTRIBUTION The increase in investment value over the last twelve months is primarily attributed to three factors: first, a turnaround in the valuation of the Delhaize Le Lion common equity investment which was crystallized; second, a significant increase in Wajax share price; and third, solid return performance from financial services stocks and the equity market generally.

HEDGING INVESTMENT CURRENCY RISK At April 30, 2004, Empire had hedged 60.5 percent of the market value of its U.S. based common equity investments by way of $52.0 million in U.S. dollar short-term borrowings. The average foreign exchange rate associated with these U.S. dollar bank loans is $1.3716 (72.9 cents). The fair value of the hedge was close to zero dollars at the end of fiscal 2004 as a result of the foreign exchange rate equaling $1.3710 (72.9 cents) at the end of the fourth quarter. Management has documented and accounted for the U.S. bank loans as a fair value hedge.

CAPITAL ALLOCATION FROM INVESTMENTS During fiscal 2004, Empire purchased a total of 1,968,800 common shares of Sobeys for a total cost of $67.7 million. This outlay was funded through capital reallocation from the investment division and bank indebtedness. This resulted in an increase in Empire's ownership of Sobeys Inc. of three percentage points, with total interest at fiscal year-end of 65.0 percent versus 62.0 percent a year earlier.

INVESTMENT INCOME For the full fiscal year, investment income increased by $0.9 million to reach $15.8 million. The increase is the result of equity accounted earnings from Wajax Limited ("Wajax") being higher than last year by $4.5 million combined with a decrease in dividend income of $3.6 million. The decline in dividend income was expected as a result of the change in the investment portfolio mix and the sale of portfolio investments to purchase additional common shares of Sobeys.

OPERATING EARNINGS The $2.7 million or 24.5 percent improvement in investments and other operations operating earnings over the prior year is attributed to the $0.9 million increase in investment income, a $0.8 million increase in theatre operating earnings and reduced interest expense.

CAPITAL GAIN (LOSS) The net capital gain realized in fiscal 2004 of $9.4 million (2003 – $6.4 million net capital loss) were largely the result of the sale of common equity investments.

NET EARNINGS Investments (net of corporate expenses) and other operations contributed $23.1 million to Empire's consolidated net earnings (13.3 percent of Empire consolidated net earnings). This compares to a $4.6 million net earnings contribution last year (3.0 percent of Empire consolidated net earnings). The improvement is the result of the increased operating earnings and the realized capital gains as discussed.

INVESTMENT PORTFOLIO AND OTHER OPERATIONS OUTLOOK

Growth in the portfolio will be dependent on a number of factors including investor sentiment in the U.S. and Canada. Equity markets may continue to remain volatile.

With respect to Empire Theatres' outlook, management recognizes that future growth will remain highly dependent on a steady supply of quality product. Based on the quality of film releases expected in fiscal 2005, an experienced operations team, and planned screen development and acquisitions, management looks forward to continued revenue growth in this business.

Explanation of Fiscal 2004 Fourth Quarter Results

The following table summarizes key operating results, by quarter, for the last eight quarters:

($ in millions, except per share information)	Fiscal 2004 Q4	Fiscal 2004 Q3	Fiscal 2004 Q2	Fiscal 2004 Q1	Fiscal 2003 Q4	Fiscal 2003 Q3	Fiscal 2003 Q2	Fiscal 2003 Q1
Revenue	$2,876.4	$2,798.5	$2,794.4	$2,814.7	$ 2,624.7	$ 2,643.6	$ 2,664.9	$ 2,687.3
Operating income	100.3	110.4	104.9	108.0	110.4	107.6	111.7	115.2
Operating earnings	41.1	44.2	39.0	39.6	41.8	39.3	39.0	39.8
Net capital gain (loss) and other items	(0.1)	8.8	(2.2)	2.7	(5.8)	–	(0.2)	–
Net earnings	$ 41.0	$ 53.0	$ 36.8	$ 42.3	$ 36.0	$ 39.3	$ 38.8	$ 39.8
PER SHARE INFORMATION, BASIC AND FULLY DILUTED								
Operating earnings(1)	$ 0.63	$ 0.67	$ 0.59	$ 0.60	$ 0.64	$ 0.60	$ 0.59	$ 0.60
Net capital gain (loss) and other items	–	0.13	(0.03)	0.04	(0.09)	–	–	–
Net earnings	$ 0.63	$ 0.80	$ 0.56	$ 0.64	$ 0.55	$ 0.60	$ 0.59	$ 0.60
Weighted average number of shares outstanding	65.8	65.8	65.9	65.8	65.8	65.9	65.9	65.8

(1) Earnings before net capital gain (loss) and other items.

Revenue for the fourth quarter was $2.87 billion compared to $2.62 billion last year, a 9.6 percent increase. The food division reported revenue of $2.80 billion, an increase of $234.6 million or 9.1 percent over the fourth quarter last year. Food division revenue growth was positively influenced by the acquisition of Commisso's at the beginning of the fourth quarter, increased retail selling square footage of 1.2 million additional square feet, inclusive of Commisso's (1.0 million net of store closures), its aggressive pricing posture, the continued implementation of sales and merchandising initiatives across the country and Sobeys' ongoing financial commitment to upgrade and renovate existing store assets. Same store sales grew 1.0 percent during the quarter with little or no inflation.

Real estate operations reported fourth quarter revenues (net of inter-segment) of $43.4 million, a decrease of $0.2 million over the fourth quarter last year. Commercial property revenue grew by $2.0 million or 6.3 percent while revenue from Genstar declined by $2.2 million or 18.5 percent. The growth in commercial property revenues was the result of higher occupancy levels, generally higher rental renewal rates and the positive impact of the acquisition of the six Commisso's properties. The decline in residential revenue from Genstar was not unexpected given the exceptionally strong lot sales recorded in the fourth quarter last year.

The 9.1 percent decline in consolidated operating income in the fourth quarter is due to a $10.0 million or 13.3 percent decline in food division operating income contribution to Empire compared to the fourth quarter last year. Food division operating income or EBIT continued to be impacted by competitive retail conditions across the country and by higher depreciation expense.

During the fourth quarter, Sobeys sold redundant real estate for a pre-tax gain of $14.6 million. Expenses were impacted by an increase in the estimate of store closing costs of $5.3 million and pension and benefit costs for employees on long-term disability of $4.8 million, both before tax. Included in fourth quarter operating income or EBIT for fiscal 2003 was the $11.3 million pre-tax impact of the Whitby, Ontario distribution centre labour disruption.

Fourth quarter EBITDA for Sobeys totaled $109.2 million, an increase of $1.4 million or 1.3 percent over the fourth quarter of 2003. As a percentage of sales, EBITDA equaled 3.90 percent, a decrease of 30 basis points from the 4.20 percent recorded in the fourth quarter last year. EBITDA declines were more significant in the Ontario region, as discussed earlier.

Real Estate division operating income generated from commercial properties increased by $1.0 million or 4.5 percent over the fourth quarter last year. Operating income from the residential real estate operations declined $2.2 million, consistent with the decline in revenue previously discussed.

Investments and other operations' fourth quarter operating income increased by $1.1 million, primarily due to increased operating income from theatre operations.

A net capital loss of $0.1 million and $5.8 million was recorded in the fourth quarter of fiscal 2004 and fiscal 2003, respectively, primarily resulting from the sale of investments.

Net earnings in the fourth quarter, including net capital loss and other items, totaled $41.0 million or $0.63 per share versus $36.0 million or $0.55 per share in the fourth quarter last year.

Consolidated Financial Position

ASSETS AND NET ASSET VALUES At April 30, 2004, management calculates Empire's consolidated net asset value (management's estimate of the market value of the Company's assets less indebtedness) at $2,045 million ($31.08 per Empire common share), a decrease of $186 million or 8.3 percent from the calculated net asset value at April 30, 2003 of $2,231 million ($33.91 per Empire common share). The table below presents the composition of net asset value by segment.

	April 30, 2004		April 30, 2003	
($ in millions)	Net Asset Value	% of Total	Net Asset Value	% of Total
Food Distribution (1)	$ 1,226	58%	$ 1,515	66%
Real Estate (2)	452	21%	414	18%
Investments and Other (3)	453	21%	374	16%
	$ 2,131	100%	$ 2,303	100%
Less: corporate debt and preferred shares	86		72	
Net asset value	$ 2,045		$ 2,231	
Per share	$ 31.08		$ 33.91	

(1) Food distribution net asset value at April 30, 2004 equals the 42.81 million common shares of Sobeys owned at fiscal year-end times the market price of a Sobeys' common share at fiscal year-end. Food distribution net asset value at April 30, 2003 equaled the 40.84 million common shares of Sobeys owned at fiscal year-end times the market price of a Sobeys' common share at fiscal year-end.

(2) Real estate net asset value for April 30, 2004 has been calculated at 9 times trailing funds from commercial operations plus 5 times trailing funds from operations from residential operations. April 30, 2003 net asset value for real estate has been adjusted to reflect multiples consistent with fiscal 2004.

(3) Investment net asset value is derived from stated public market values of securities in the portfolio.

At April 30, 2004, approximately 80 percent of Empire's net asset value was derived from assets that are valued by publicly available market prices and trade on recognized public stock exchanges. This includes Sobeys' common shares and securities held in Empire's investment portfolio. For each dollar increase in Sobeys' share price, Empire's net asset value increases by $0.65 per share.

Book value per common share was $23.81 at April 30, 2004, compared to $21.54 at April 30, 2003.

CAPITAL STRUCTURE AND KEY FINANCIAL CONDITION MEASURES

April 30th ($ in millions, except ratio calculations)	2004	2003
Shareholders' equity	$ 1,576.8	$ 1,427.1
Short-term debt	$ 140.8	$ 99.3
Long-term debt, including current portion	$ 985.4	$ 1,112.0
Debt to total capital	41.7%	45.9%
Net debt to total capital	36.9%	38.5%
Interest coverage	4.62x	4.79x

SHAREHOLDERS EQUITY Total common shares outstanding at April 30, 2004 equaled 65,754,810, relatively unchanged from a year ago. There were 30,869,585 Non-Voting Class A shares outstanding and 34,885,225 Class B common shares outstanding at April 30, 2004. During fiscal 2004, 30,000 options were exercised compared to 27,800 in fiscal 2003. At April 30, 2004, Empire had 37,074 options outstanding with expiry dates ranging from June 2004 to October 2006.

Empire has a policy of repurchasing enough Class A Non-Voting shares to offset the dilutive effect of shares issued to fulfill the Company's obligation under its stock option and share purchase plans. During fiscal 2004 Empire purchased 68,477 Non-Voting Class A shares for cancellation versus 60,124 in fiscal 2003.

At June 24, 2004, Empire had 30,878,985 Non-Voting Class A shares and 34,885,225 Class B common shares outstanding. Empire had 27,674 options outstanding on June 24, 2004.

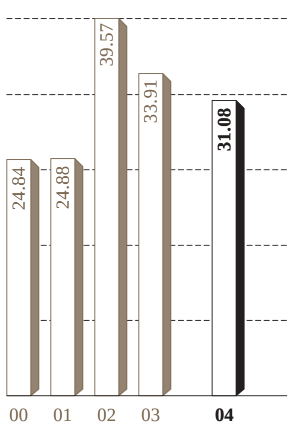
Dividends paid to common shareholders amounted to $26.3 million ($0.40 per share) versus $21.7 million ($0.33 per share) for the same period last year.

LIABILITIES Empire finances a significant portion of its assets through the use of debt (bank indebtedness, long-term debt and long-term debt due within one year), the majority of which is fixed-rate and long-term in nature. Total fixed-rate, long-term debt (including the current portion of long-term debt) at year-end of $985.4 million represents 87 percent of Empire's total funded debt. Long-term debt by operating company is detailed in the table below.

April 30th ($ in millions)	2004	2003
Food Distribution	$ 442.8	$ 585.4
Real Estate	538.2	521.5
Other Operations	4.4	5.1
Total	$ 985.4	$ 1,112.0

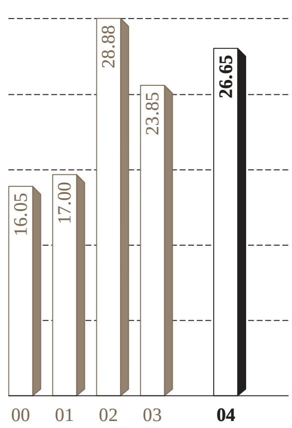
Of the total fixed-rate, long-term debt, 44.9 percent was directly related to the food distribution segment, 54.6 percent was directly related to the real estate segment, and 0.5 percent was related to other operations. There is no long-term debt carried by the investment segment. The investment segment's assets are short-term and liquid in nature, therefore associated financing is also short-term. Empire finances its long-term assets with fixed-rate, long-term debt, thereby reducing both interest rate and refinancing risk.

NET ASSET VALUE PER SHARE
($ per share)



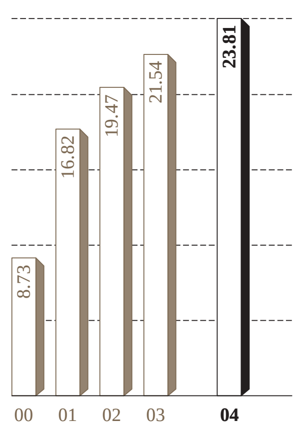
YEAR ENDED APRIL 30TH

SHARE PRICE
($ per share)



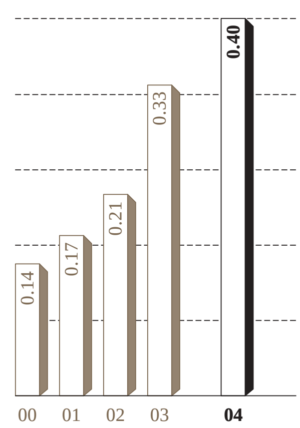
YEAR ENDED APRIL 30TH

BOOK VALUE PER SHARE
($ per share)



YEAR ENDED APRIL 30TH

COMMON DIVIDENDS PER SHARE
($ per share)



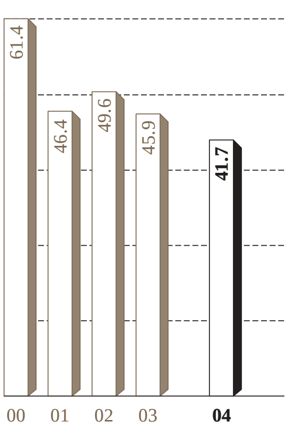
YEAR ENDED APRIL 30TH

At April 30, 2004, interest coverage (operating income divided by interest expense) was 4.62 times, which was slightly down from the 4.79 times reported as of April 30, 2003. Reduced interest expense in fiscal 2004 was more than offset by the year-over-year decline in operating income of 4.8 percent. Interest coverage improved for the real estate, investments, and other operation segments, but coverage for the food segment declined to 6.95 times from 7.79 times a year earlier. The lower interest coverage recorded by the food segment was a direct result of the lower operating income reported in fiscal 2004 versus 2003.

The debt to total capital ratio declined 4.2 percentage points as a result of lower debt levels and higher retained earnings. The net debt (debt less cash and cash equivalents) to total capital ratio declined 1.6 percentage points. In addition to the Company's cash and cash equivalents, Empire's investment portfolio consisting of liquid publicly traded securities strengthened its financial position. At April 30, 2004, the portfolio carried a market value of $390.9 million.

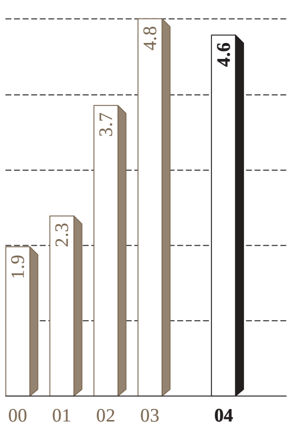
Empire has a corporate unsecured debt rating of BBB- (stable trend) from Standard & Poor's and a debt rating of BBB (negative trend) from Dominion Bond Rating Service. Sobeys has a corporate unsecured debt rating of BBB- (stable trend) from Standard and Poor's and a debt rating of BBB high (negative trend) from Dominion Bond Rating Service. On April 26, 2004, Dominion Bond Rating Service put the Company and Sobeys on a negative trend as a result of increased competitive pressures which have impacted margins.

DEBT TO TOTAL CAPITAL
(percentage)



YEAR ENDED APRIL 30TH

INTEREST COVERAGE
(times)



YEAR ENDED APRIL 30TH

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with in fiscal 2004 and fiscal 2003.

Empire anticipates ready availability of any required longer-term financing due to its investment grade credit rating, previous experience in the capital markets, and Sobeys established Medium Term Note program pursuant to its amended shelf prospectus expiring February 19, 2005, which provides for the issuance of up to $500.0 million of unsecured Medium Term Notes.

HEDGING INSTRUMENTS Empire utilizes hedging instruments from time to time to prudently manage exposure to interest rate volatility. At April 30, 2004, the gross notional amount of all interest exchange agreements totaled $29.8 million at rates ranging from 4.0 percent to 6.4 percent. The food division had in place a gross notional value of $11.8 million and effectively exchanged floating-rate interest payments to 6.4 percent fixed-rate interest payments. The real estate division had in place a gross notional value of $18.0 million and effectively exchanged floating-rate interest payments to 4.0 percent fixed rate interest payments.

To mitigate the currency risk associated with the Company's U.S. dollar investments, Empire has designated U.S. bank loans as hedges. This debt is short-term in nature and provides flexibility to hedge the U.S. dollar exposure.

Empire and its subsidiaries use hedging instruments to mitigate risk exposure, not for speculative purposes.

CAPITAL RESOURCES AND SOURCES OF LIQUIDITY Empire's liquidity remains strong as a result of:

- internally generated cash flow from operating activities;
- net cash on hand;
- an improved working capital position;
- unutilized bank credit facilities;
- ready availability of long-term debt financing; and
- Empire's investment portfolio of liquid short-term investments which carried a market value at fiscal year-end of $390.9 million.

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year. The Company normally refinances existing long-term debt as it matures, and maintains financial flexibility through its investment portfolio and access to the capital markets for additional long-term debt or equity financing. Longer-term financing is obtained by Sobeys through Canadian public debt markets via Sobeys established Medium Term Note program pursuant to its amended shelf prospectus filed on February 17, 2003. Sobeys also utilizes capital leases for the financing of selected properties and assets. The Company, along with Sobeys, anticipates continued ready access to financing sources as a result of in-place investment grade credit ratings and previous experience in the capital markets.

BANK CREDIT FACILITIES On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of $325.0 million, of which 23 percent was utilized at year-end. Financial instruments are used from time to time to manage the risk of short-term interest rate fluctuations on underlying short-term bank indebtedness. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $621.6 million at April 30, 2004.

WORKING CAPITAL During 2004, Empire decreased it working capital requirements by $63.3 million. The decrease is primarily the result of stronger inventory and payables management by the food division, providing higher payables as a percent of inventory at the end of the year. The table below details the primary working capital components and respective values compared to last year.

($ in millions)	At April 30 2004	At April 30 2003	Increase (Decrease) in Working Capital
Receivables	$ 329.5	$ 348.8	$ (19.3)
Inventories	492.9	478.2	14.7
Prepaid expenses	49.3	37.1	12.2
Accounts payables	(1,141.2)	(1,037.4)	(103.8)
Income taxes payable	(10.6)	(43.5)	32.9
Net working capital change			$ (63.3)

CASH AND CASH EQUIVALENTS At April 30, 2004 cash and cash equivalents were $202.2 million versus $316.8 million at April 30, 2003. In October 2003, the food division used $100.0 million to repay an outstanding Medium Term Note issue. Cash is currently invested in guaranteed investment certificates.

CAPITAL REQUIREMENTS Capital requirements during fiscal 2004 included:

- capital expenditures;
- working capital needs;
- dividend payments;
- debt repayments; and
- share repurchases under the Company's normal course issuer's bid.

CAPITAL EXPENDITURES Consolidated on balance sheet purchases of property equipment and other assets totaled $431.0 million compared to $442.0 million last year. The table below presents balance sheet capital expenditures over the last two years by business segment.

($ in millions)	2004	2003
Food Distribution	$ 384.9	$ 411.2
Real Estate	34.2	25.1
Investments and Other	11.9	5.7
Total capital expenditures	$ 431.0	$ 442.0

During fiscal 2004, food division company-wide capital spending, which includes expenditures by Sobeys, franchisees, and third parties, totaled $552.9 million, with 87 percent of the food division's total capital spending directed towards the expansion and modernization of its retail store network. Sobeys used its regional market overview process to identify and prioritize investment opportunities in each of its four regions.

This capital spending represents an increase of $6.9 million from the $546.0 million total company-wide spending made by the food distribution segment in fiscal 2003. Also included was the purchase of 15 Commisso's stores and six cash and carry outlets in Ontario. In addition, the food division added 2.4 million square feet, as compared to 1.5 million square feet added in fiscal 2003. Total square footage, net of store closures, increased by 1.5 million square feet, an increase of 6.6 percent over the prior year.

The table below details the new and replacement stores opened in fiscal 2004.

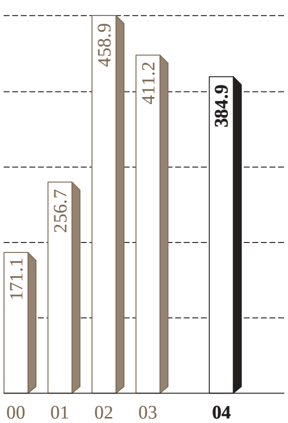
	2004	2003
Sobeys Banner	19	7
IGA (Garden Market IGA and IGA extra)	18	22
Price Chopper	11	8
Other	13	8
Total	61	45

In addition to the new stores opened or replaced during the year, 28 stores were renovated and/or expanded in fiscal 2004 versus 29 in the previous fiscal year. At fiscal year-end 2004, the food division operated 1,311 stores (433 corporate stores and 878 franchised stores).

The majority of Sobeys' total company-wide spending in fiscal 2005, which will approximate the average capital expenditures of the past number of years, will be allocated to the retail store network. During fiscal 2005, Sobeys plans to open, expand, or renovate approximately 100 corporate and franchise stores across Canada, increasing square footage by approximately 4 percent.

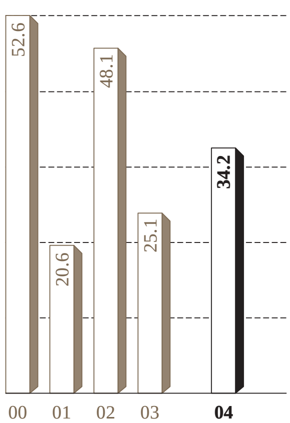
Real estate capital spending in fiscal 2004 includes investment in the existing property portfolio and the purchase of six Commisso's properties in Ontario.

FOOD DISTRIBUTION CAPITAL EXPENDITURES
($ in millions)



YEAR ENDED APRIL 30TH

REAL ESTATE CAPITAL EXPENDITURES
($ in millions)



YEAR ENDED APRIL 30TH

DIVIDEND PAYMENTS Dividends of $26.3 million ($0.40 per share) were paid in fiscal 2004 on Empire's common shares, up from the $21.7 million ($0.33 per share) paid in fiscal 2003. The dividend rate increased from $0.33 to $0.40 per share. There was no material change in the number of common shares outstanding year-over-year.

DEBT REPAYMENTS Empire's funded debt was reduced year-over-year primarily as a result of the food division repaying long-term debt of $162.7 million largely as a result of a $100.0 million repayment of Medium Term Notes which matured October 2, 2003, and other scheduled long-term debt repayments. The $100.0 million repayment was made with the proceeds of a Sobeys Medium Term Note issued in February 2003.

SHARE REPURCHASES During fiscal 2004, Empire repurchased 68,477 Non-Voting Class A shares ($1.8 million) under a Normal Course Issuer Bid announced June 26, 2003. The Company issued 64,429 Non-Voting Class A shares ($1.1 million) to fulfill its obligations under its stock option and share purchase plans.

The Company anticipates that its capital resources and liquidity position will meet its capital and liquid requirements over the next year, which is expected to include capital expenditures, dividend payments and debt reduction.

On March 8, 2004, Sobeys announced its intention to file a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation up to 2,000,000 common shares representing approximately 3.0 percent of the shares outstanding. The Board of Directors and management of Sobeys believe that the repurchase of its shares at recent prevailing market prices is a worthwhile investment and in the best interests of Sobeys. Shareholders may obtain a copy of the notice of intention by contacting Sobeys Investor Relations department, 115 King Street, Stellarton, N.S., B0K 1S0.

On July 8, 2004, Empire announced its intention to file a Normal Course Issuer Bid with the Toronto Stock Exchange to purchase for cancellation of up to 617,391 Class A Non-Voting shares representing approximately 2.0 percent of the Class A Non-Voting shares currently outstanding. The Board of Directors and Management of Empire believe that the repurchase of its shares at recent prevailing market prices is a worthwhile investment and in the best interests of the Company. Shareholders may obtain a copy of the notice of intention by contacting Empire's Investor Relations department, 115 King Street, Stellarton, N.S., B0K 1S0.

Accounting Policy Changes

ACCOUNTING STANDARDS IMPLEMENTED IN FISCAL 2004

Effective May 1, 2003, the Company adopted two new Canadian Institute of Chartered Accounts ("CICA") Handbook Sections. Section 3063, "Impairment of long-lived assets", provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. There was no impact of the application of Section 3063 on the consolidated financial statements. Section 3475, "Disposal of long-lived assets and discontinued operations", provides guidance on the recognition, measurement, presentation, and disclosure of any long-lived assets not held for use and any discontinued operations. During the current fiscal year, land and buildings have been listed for sale and reclassified as "Assets for realization". These assets are expected to be sold within a twelve-month period, are no longer productive assets and there is no longer intent to develop the land for future use. Assets for realization are valued at the lower of cost and fair value less costs to sell.

Effective May 1, 2003, the Company adopted CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments", which had no impact on the Company's earnings. In fiscal 2004 the Emerging Issues Committee issued Abstract 132, "Share Purchase Financing". This Abstract required share purchase loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. The Company has determined there is no impact on the consolidated financial statements.

ACCOUNTING STANDARDS TO BE IMPLEMENTED IN FISCAL 2005

The CICA has issued Accounting Guideline Number 15 draft, "Consolidation of Variable Interest Entities", which, if adopted as proposed, is applicable to the Company's third quarter of fiscal 2005 in relation to disclosure of and accounting for Variable Interest Entities. The purpose of this guideline is to provide guidance for determining when an enterprise includes the assets, liabilities and results of activities of certain entities that are subject to control on a basis other than ownership of voting interest. A Variable Interest Entity ("VIE") is any type of legal structure not controlled by voting equity, but rather by contractual and/or other financial arrangements. The Company has identified potential VIE's and is currently reviewing Accounting Guideline 15 to determine what extent, if any at all, consolidation and note disclosure will be required. The consolidation of potential VIE's is not expected to result in any material change in the reported earnings or underlying tax, legal or credit risks facing the Company.

In January 2004, the CICA issued a new accounting standard EIC-144 titled "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor". EIC-144 provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales and related inventory when recognized in the customer's income statement and balance sheets. If the consideration is a payment for assets or services delivered to the vendor, the cash consideration should be characterized as revenue or other income. If it is a reimbursement of costs incurred to sell the vendor's products, the cash consideration should be characterized as a reduction of that cost, provided certain conditions are met. EIC-144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. The Company is currently assessing the impact of these recommendations and will implement them in the first quarter of fiscal 2005.

The CICA has also introduced handbook section 1100 which discusses primary sources of GAAP, what to do when a matter is not dealt explicitly in the sources of GAAP and identifies some other sources to be consulted when a matter is not dealt with in the sources of GAAP. The new standard is effective for the Company's fiscal year-end 2005. The Company is currently assessing the impact of these recommendations.

To date, the real estate division has identified that real estate industry practice with respect to depreciation and lease accounting will not be acceptable. Therefore, the real estate division will change their method of depreciation from the sinking fund method to the straight-line method. In addition, the real estate segment will recognize income from tenant leases on a straight-line basis. Both of these policies will be adopted prospectively without restatement.

Critical Accounting 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 benefit obligations.

Significant assumptions used to calculate the pension and employee future benefit obligations are the discount rate, the expected long-term rate of return on plan assets and expected growth rate of health care costs. These assumptions depend on various underlying factors such as economic conditions, investment performance, employee demographics and mortality rates. These assumptions may change in the future and may result in material changes in the pension and employee benefit plans expense. The magnitude of any immediate impact however is mitigated by the fact that net actuarial gains and losses in excess of 10.0 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 Sobeys' 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 rate is determined on April 30 every year. For 2004, the discount rate used for calculation of pension benefit plans and other benefit plans expense was 6.0 percent compared to 6.5 percent in 2003. The expected long-term rate of return on plan assets for pension benefit plans for each of 2004 and 2003 was 7.0 percent. The expected growth rate in health care costs is 10.0 percent for fiscal 2004. The cumulative growth rate to 2010 is expected to be 6.0 percent. The expected future growth rate is evaluated on an annual basis.

The table below outlines the sensitivity of the 2004 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligations or benefit plan expenses.

	PENSION PLANS		OTHER BENEFIT PLANS	
($ in 000's)	Accrued Benefit Obligations	Pension Expense	Accrued Benefit Obligations	Pension Expense
Expected long-term rate of return on plans assets		7.0%		
Impact of: 1% increase		$ (2,190)		
1% decrease		$ 2,190		
Discount rate	6.0%	6.0%	6.0%	6.0%
Impact of: 1% increase	$ (27,307)	$ (1,920)	$ (15,618)	$ (2,056)
1% decrease	$ 30,661	$ 2,037	$ 18,890	$ 2,224
Growth rate of health care costs			9.0%	9.0%
Impact of: 1% increase			$ 17,495	$ 1,524
1% decrease			$ (14,870)	$ (1,410)

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

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

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

INCOME TAXES Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of 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, a charge or credit to income tax expense and may result in cash payments or receipts.

Related Party Transactions

Sobeys continues to lease certain real property from Crombie and its affiliates at formula determined rates. The rates are determined based primarily on the financing of the actual costs incurred at the time of construction of the leased properties. The aggregate net payments under these leases amounted to approximately $52.2 million (2003 – $49.8 million). Sobeys was charged administrative expenses of $0.4 million (2003 – $0.5 million). At May 1, 2004, mortgage receivables of $2.2 million were owing to Sobeys from related parties.

Empire Theatres leased certain real property from Crombie and its affiliates, at fair market value, during the year. The aggregate payments under the leases amounted to approximately $3.2 million (2003 – $3.0 million).

Change in Fiscal Year-end

Effective for fiscal 2005, Empire's fiscal year-end is changing from April 30th to the first Saturday in May. As such, the quarter-end dates and fiscal year-end will be consistent with Sobeys Inc.

Contractual Obligations

The table below details operating lease commitments, capital lease obligations and long-term debt payments.

($ in millions)	2005	2006	2007	2008	2009	Onwards	Total
Long-term debt	$ 77.7	$ 222.9	$ 34.1	$ 62.7	$ 71.3	$ 502.6	$ 971.3
Capital leases	3.8	3.4	2.1	1.0	0.7	1.6	12.6
Operating leases	197.8	184.3	165.4	142.0	125.1	1,072.1	1,886.7
Total contractual obligations	$ 279.3	$ 410.6	$ 201.6	$ 205.7	$ 197.1	$ 1,576.3	$ 2,870.6

Operating leases, net of lease income received by the Company, are as follows:

	2005	2006	2007	2008	2009	Onwards	Total
	$ 71.7	$ 65.6	$ 55.2	$ 46.7	$ 47.5	$ 491.7	$ 778.4

Other contractual obligations not reflected in the table above are discussed below.

At April 30, 2004, Sobeys was contingently liable for letters of credit issued in the aggregate amount of $22.0 million (2003 – $27.4 million). Sobeys has also guaranteed certain bank loans contracted by franchisees. As at April 30, 2004, these loans amounted to approximately $5.0 million (2003 – $7.3 million).

Upon entering into the lease of its new Mississauga distribution centre, in March 2000, Sobeys Capital Incorporated (a subsidiary of Sobeys Inc.) guaranteed to the landlord the performance, by SERCA Foodservice Inc., of all its obligation under the lease. The remaining term of the lease is 16 years with an aggregate obligation of $48.8 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.

Sobeys leases space for certain company-owned and franchised stores. The terms of these leases vary by location with typical renewal options.

At April 30, 2004 Crombie was contingently liable for letters of credit issued in the aggregate amount of $20.0 million (2003 – $20.1 million).

Risk and Risk Management

Through its operating companies and investment portfolio, Empire is exposed to a number of risks in the normal course of business that have the potential to affect its operating performance. These risks include competitive risk, environmental risk, financial risk, operational risk, and equity price risk.

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

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry. The most significant risk to Sobeys is the potential for reduced revenues 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, 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 a variety of store formats, sizes, and banners, in order to enhance profitability by region and by target market.

Empire's real estate operations compete with numerous other developers, managers, and owners of real estate properties in seeking tenants and new properties for future development. The existence of competing developers, managers, and owners could affect our real estate group's ability to lease space in its properties and on rents charged or concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect revenues and cash flows. Other than space leased to affiliated companies, no one tenant accounts for more than 5.0 percent of real estate division total base rental income.

Continued growth of rental income is dependent on renewing expiring leases and finding new tenants to fill vacancies at market rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. During fiscal 2004, our real estate operations encountered generally positive economic conditions in our key markets and a relative lack of new rental space resulted in relatively stable rental rates.

ENVIRONMENTAL RISK Empire has an effective environmental program in place including policies targeted at ensuring compliance with all applicable environmental legislative requirements. 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.

FINANCIAL RISK Empire and its operating companies have adopted a number of financial policies to manage interest rate risk and foreign exchange risk.

The majority of Empire's consolidated debt is at fixed rates and accordingly there is limited exposure to interest rate fluctuations. Fixed rate debt issues have staggered maturity dates which minimize the Company's exposure to refinancing risk.

In the ordinary course of managing floating rate debt, the Company utilizes financial instruments to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes.

At April 30, 2004, Empire had equities totaling $117.8 million denominated in U.S. dollar currency. To mitigate exposure to currency fluctuation, the Company has hedged its U.S. investments through the use of U.S. dollar denominated debt against the assets. At April 30, 2004 the ratio of U.S. dollar debt to the market value of U.S. equities was 60.5 percent.

OPERATIONAL RISK Empire and its subsidiaries are self-insured in respect of certain operational risks. In addition, comprehensive loss prevention programs are maintained to mitigate the financial impact to the Company or its affiliates. Sobeys, as part of its quality control program, recognizes food safety, particularly in perishable products, is of utmost importance. The Company maintains strict policies in its facilities to ensure food quality and safety are not compromised.

Sobeys' operational risk also includes the risk of labour disruption. In the first quarter of fiscal 2004, employees at the Whitby, Ontario distribution centre (CAW, local 1090) ratified a new three-year contract. Labour disruptions pose a moderate operational risk, as the Company has good relations with its employees and unions, and does not anticipate any material labour disruptions in fiscal 2005.

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

Outlook

Management has projected stronger financial performance for fiscal 2005, assuming continued intense competition and conservative cost of capital assumptions. Management remains committed to executing operational and capital allocation decisions that will grow the cash flow and net asset value in each of our businesses over the long term.

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

Dated: June 24, 2004