



Paul Sobey, President and Chief Executive Officer, with Rob Dexter – a Director of Empire since 1987, who succeeded Donald Sobey as Chairman in September, 2004, becoming the first Chair from outside the Sobey family.

Enduring value

At Empire, we are very proud of our legacy of value creation and we remain fully focused on the long-term. Our approach is clear and unwavering: we commit our capital to businesses operating in sectors we know and understand. We ensure that these operations have outstanding management and are provided with the capital they need to fund economically attractive growth and development.

A handwritten signature in black ink, appearing to read "Paul D. Sobey". The signature is fluid and cursive.

Paul D. Sobey
President and C.E.O.

A handwritten signature in black ink, appearing to read "Rob Dexter". The signature is fluid and cursive.

Robert P. Dexter
Chairman

“With higher operating company earnings and a very strong investment performance, Empire once again built on our long-term legacy of value creation.”

Building value in 2005

Empire Company achieved strong, balanced performance in 2005, posting record results in revenues, operating earnings and cash flows. Our revenues grew by 10.2% to reach \$12.4 billion, operating earnings grew by 12.0% to reach \$182.9 million or \$2.78 per share. Dividends paid to common shareholders increased by 20% and we are pleased to note that the Board approved a further 16.7% increase in the common share dividend rate per share effective July, 2005. This represents the tenth straight year of growth in the dividend and is a reflection of the Board's confidence in the fundamentals of our business.

We are pleased to see that the returns enjoyed by our shareholders once again reflect the strong underlying performance of our Company. Empire provided a 39.8% total return to shareholders in fiscal 2005, more than double that recorded by the S&P/TSX Index over the same time period. We believe that such returns reflect, at least in part, a growing understanding of the value of each of our operating businesses as well as our long-term track record of building value.

That track record, in turn, reflects our ongoing commitment to initiatives which enhance the long-term value of Empire and our operating

businesses. We have not and will not be persuaded to pursue short-term goals at the expense of long-term value creation. Investments to enhance Sobeys' operational efficiency made this year and planned for the future are an example of the longer term focus of this organization. We are pleased that throughout Empire, tough decisions are made easier through the clarity of this core principle: our shareholders deserve nothing less.

Empire's steady and consistent performance and legacy of value creation has largely been the result of paying close attention to the needs of our customers – consumers shopping for groceries, movie-goers enjoying our theatres, and tenants of our commercial real estate properties. Along with the leadership, good planning and disciplined execution demonstrated by the management of our operations, we have clearly benefited from the collective efforts of thousands of hard working employees who have the passion and desire to succeed and do better for their respective customers.

Managing Growth in 2005

Sobeys has effectively pursued its food focused strategy, and through significant investments in merchandising, store network development,



Paul D. Sobey
President and C.E.O.,
Empire Company Limited

margin and selling initiatives, has successfully delivered sales growth well above the industry average, with same store sales growth of 3.7%, resulting in market share gains in its four major markets. Bottom line performance improved in 2005 and during the year, Sobeys has, with renewed vigour, focused on productivity initiatives to reduce costs and increase efficiencies. These initiatives carry a price tag in the short-term: we are confident they will lead to enhanced and sustainable profitability over the longer term.

Empire's confidence in Sobeys' strategy and execution was tangibly demonstrated through our acquisition of 1.86 million Sobeys common shares in fiscal 2005, increasing our ownership interest in Sobeys to 68.4% from 65.0% at the start of the fiscal year.

Our real estate division continues to deliver strong financial results, with our residential real estate operations once again exceeding our performance metrics and expectations.

For several years we have cautioned that residential development follows its own market cycle and that a slowdown would begin catching up with Genstar. We have been delighted to have been proven wrong. Genstar is a very well

managed business which has been focused on markets in Western Canada where demand has remained quite strong. Although a slowdown must surely eventually occur, we are confident that Genstar will continue to outperform its market sector through all stages of the economic cycle.

The real estate division's commercial real estate business has also remained strong. Management has been successful in achieving growth in this business, consistent with their strategic plan. Our occupancy level has remained healthy at 93.5%. In addition, we are pleased that Empire's real estate management have achieved geographic diversification, another strategic goal: Genstar is focused in the West, largely in Calgary, Edmonton, and Vancouver, while the commercial portfolio is focused in Atlantic Canada and Ontario.

Our theatre operation had a good year, posting top line growth of 13.7% and a continued strong return on equity despite the fact that the movie theatre industry was in the doldrums for much of the fiscal year due to a lack of blockbuster movies. Empire Theatres' performance was largely driven by the acquisition and development of six theatres and 34 movie-screens during the year.



“What is key with our operating businesses is to give top quality management the authority, responsibility and accountability to perform.”

This performance reflects on the quality of its management, its attention to cost controls and the pursuit of its strategy of focusing on markets where Empire Theatres can be the entertainment destination of choice. While turning in a solid financial performance, Empire Theatres continues to build value for the future with the addition of new screens, the ongoing modernization of its existing circuit and a passion for operational effectiveness and efficiency.

During fiscal 2005 our investment portfolio generated investment income of \$21.0 million, realized investment capital gains of \$4.4 million and increased our unrealized capital gain position by \$73.4 million. Empire’s investment returns continued to outpace industry benchmarks for the year and also over the longer term.

Our first quartile return performance was centered around the solid performance by our equity accounted investment in Wajax Limited. Wajax earnings performance was the best in seven years, reflecting their continued adherence to the disciplines initiated in 2002 in order to return Wajax’s profitability to an acceptable level. Their focus on business fundamentals as well as the implementation of growth and profit improvement strategies in each of Wajax’s core

businesses contributed to these solid results. We acknowledge the hard work of the management and employees of Wajax for delivering solid financial results, a strong capital position, and a renewed commitment to growing revenues and delivering sustainable earnings.

Subsequent to fiscal year end, on June 15, 2005 Wajax completed its conversion to an income fund. Empire subsequently via a “secondary” offering reduced its holding from 45.0% on a fully diluted basis, to 27.6%. We believe that this conversion has not only enhanced shareholder value and liquidity but has also provided a new platform for the growth and development of Wajax.

Ongoing Progress

Looking ahead through fiscal 2006, we will continue to focus on our core operating companies and expect further progress towards the execution of their respective business plans. We will also support and encourage continued progress towards making each of our businesses more efficient.

Each of our operating businesses will continue to work towards enhancing value for the long-term and all are prepared for challenges in their markets. While fluctuations through a

From Left to Right:

Carol A. Campbell, Vice President, Risk Management

John G. Morrow, Vice President and Comptroller, **Paul V. Beesley**, Senior Vice President and Chief Financial Officer, **Stewart H. Mahoney**, Vice President Treasury and Investor Relations



cycle are to be expected; our focus will remain on the long-term trends – and over the long-term, Empire has done well for all stakeholders.

Empire's management team has a significant portion of personal net worth linked to the Company's fortunes; our interests are well aligned with all shareholders of the Company and we prefer nothing less. To further enhance the long-term value in Empire we are committed to the constant review of our operating businesses and of our investments. We will continue to monitor our progress closely and analyze all tangible options for improving long-term shareholder value.

We are very fortunate in having the support, counsel and direction of a very strong Board of Directors – including our new Chairman, Rob Dexter, and our Chairman Emeritus, Donald Sobey. The Company owes much to Donald Sobey, Chairman of the Company for 20 years. His experience and sound judgment have provided wise counsel to the Empire Board

and to our management team, and we look forward for his continued contributions as a Director of the Company.

We are also very fortunate in the quality and dedication of the management and employees of Empire and our operating businesses. Their enthusiasm, hard work, passion and desire to succeed and do better for their customers has resulted in another successful year. With their support we look forward to continuing to build value together.

A handwritten signature in black ink that reads 'Paul D. Sobey'.

Paul D. Sobey
President and C.E.O.
July 15, 2005