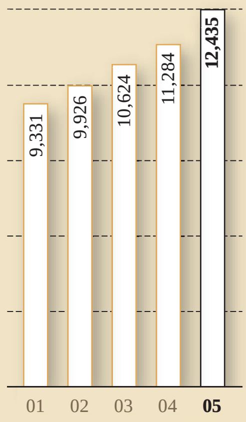
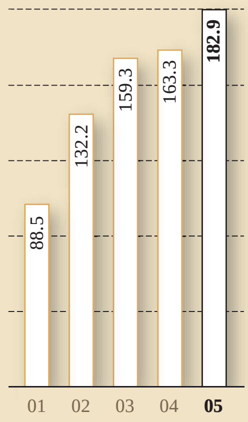
Management's Discussion and Analysis

Revenue[1]
($ in millions)



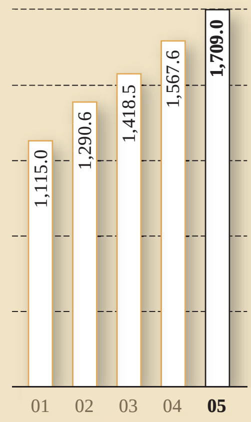
Fiscal Year
(1) Includes gain of $14.6 million on sale of redundant real estate in fiscal 2004.

Operating Earnings[1]
($ in millions)



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

Shareholders' Equity
($ in millions)



Fiscal Year

Management's Discussion & Analysis

Introduction

This Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 53 weeks ended May 7, 2005, as compared to the 52 weeks ended April 30, 2004. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of operating performance of the Company's divisions as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

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

This discussion and analysis should be read in conjunction with the audited annual consolidated financial statements of the Company and the accompanying notes for the 53 weeks ended May 7, 2005. In fiscal 2005, the fiscal year-end of the Company changed to the first Saturday in May to be consistent with its major subsidiary, Sobeys Inc.

The reader should note that the implementation of Emerging Issues Committee Abstract 144, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EIC-144") resulted in a restatement of certain prior periods' information, as outlined in the section entitled "EIC-144, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" included in this MD&A.

Also, in the fourth quarter of fiscal 2005, the Company reviewed its accounting practices in relation to leases as a result of recent clarification by the Office of the Chief Accountant of the U.S. Securities and Exchange Commission. Adjustments were required to restate certain prior period information and further information can be found in the section entitled "Lease Accounting" included in this MD&A.

Also, effective for the fourth quarter of fiscal 2005, the Company implemented Accounting Guideline 15 "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 required the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity. The guideline was adopted retroactively without restatement of prior periods. See Note 22 to the audited annual consolidated financial statements. Please review the section titled "AcG-15, Consolidation of Variable Interest Entities" included in this MD&A for more information.

This discussion contains forward-looking information about the future performance of the Company and its divisions. These statements are based on management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to inherent uncertainties, risks and other factors that could cause actual results to differ materially from such statements, including but not limited to: general industry and economic conditions, pricing pressures and competitive factors, rates of return on capital spending, the results of business improvement and development initiatives and the availability and terms of financing, amongst other factors. When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause actual results to differ materially from any estimates or intentions expressed in such forward-looking statements. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.

There are measures included in this MD&A that do not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP"). Management includes these measures because it believes certain investors use these measures as a means of assessing relative financial performance. Additional information relating to non-GAAP financial measures is provided at the end of this document.

Company Overview

Empire is a diversified Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing – through a 68.4% ownership of Sobeys Inc. ("Sobeys"), real estate through two wholly-owned operating subsidiaries: Sobey Leased Properties Limited ("SLP"), and Crombie Properties Limited ("Crombie"), including 35.7% ownership of Genstar Development Partnership ("Genstar"); and corporate investment activities and other operations which includes wholly-owned Empire Theatres Limited ("Empire Theatres").

With $4.9 billion in assets, Empire employs approximately 37,000 people directly and through its subsidiaries.

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.

Food Division

Sobeys is a leading national retail grocery and food distributor headquartered in Stellarton, Nova Scotia. Founded 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 subsidiaries conduct business in four operating regions: Sobeys West, Sobeys Ontario, Sobeys Quebec, and Sobeys Atlantic.

Sobeys' strategy is focused on delivering the best food shopping experience to its customers in the right-sized, right format, stores, supported by superior customer service. The five specific store formats deployed by the Company to satisfy its customers' principal shopping requirements are the full service, fresh service, convenience service, community service and price service formats. The Company remains focused on improving the product, service and merchandising offerings within each format by realigning and renovating its current store base, while continuing to build new stores. The Company's four major banners – Sobeys, IGA extra, IGA and Price Chopper – constitute our primary formats.

During the year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 98 stores (2004 – 200 stores). Sobeys continued to execute a number of initiatives in support of its food-focused strategy including productivity initiatives and business process and system upgrades.

In fiscal 2005, Sobeys continued the roll-out of the Sobeys banner in Western Canada with the introduction of 11 Sobeys stores in Saskatchewan. The Saskatchewan store program combines a traditional full service Sobeys offering with a discount format grocery pricing position. The conversion of the Saskatchewan stores brings the total Sobeys banner stores in Western Canada to 72.

Sobeys opened Ontario's first two Sobeys *express* stores in conjunction with the new Canadian Tire gasoline retail concept called "Q". These Sobeys *express* stores combine convenience products and service with additional fresh food and "on-the-go" programs.

Sobeys is committed to remaining competitive in increasingly competitive markets as demonstrated by its continued implementation of the "We Serve. You Save." pricing program across the country. Sobeys sales growth in fiscal 2005 was partially fuelled by this aggressive pricing posture in addition to continued implementation of sales, merchandising and capital spending initiatives.

Compliments, Sobeys new private label brand, was launched during the year to contribute to growth of company-wide profitability by earning a greater share of customers' food and grocery shopping requirements. The Compliments brand consists of three tiers: Value, Selection and Sensations. The Company plans to have launched approximately 3,000 Compliments products by October 2005. At the end of fiscal 2005, 1,049 selection tier and 625 value tier items were launched representing 56 percent of the planned total.

In addition to the above noted sales and merchandising initiatives which have driven sales growth, Sobeys remains focused on short, medium and long-term productivity and business process optimization initiatives designed to improve its processes and cost structure for the long-term.

A key productivity focus in fiscal 2005 was the roll-out of the first phase of Sobeys SMART Retailing initiative. SMART Retailing focuses on continuous improvement processes that have resulted in improved labour productivity in the handling of back-shop inventories, reduction in back room inventories and shrink (product waste) reduction in produce, bakery, and meat departments. SMART Retailing has been implemented in 397 stores to date with planned completion of the remaining 315 targeted stores in fiscal 2006. The next phase of SMART Retailing will be focused on the implementation of a comprehensive store performance management process supported by a balanced scorecard. This will support the ongoing implementation of SMART Retailing and focus on customer satisfaction, sales growth and margin improvements.

During fiscal 2005 Sobeys also made significant progress in the implementation of system-wide business process optimization initiatives that are designed to reduce complexity and improve processes throughout the Company. To this end, Sobeys continued the roll-out of a common point-of-sale (POS) system. This common POS system provides improved customer information and enhanced customer service at store check-outs, and is a key enabler of other business process optimization initiatives currently underway.

Sobeys is also engaged in the roll-out of a new scale networking solution, which will enable full compliance with the new nutritional labeling requirements that come into effect on December 12, 2005.

System and process complexities in the Ontario business, as discussed in the fiscal 2004 MD&A, negatively impacted earnings in that region. In fiscal 2006 Sobeys intends to advance its business process and information systems transformation plan for the Company by focusing on the significant opportunity to upgrade capabilities and improve efficiencies in the Ontario region. The system and processes that are being implemented have been developed over several years and are currently employed in Sobeys Atlantic Region. The Ontario roll-out will simplify, standardize and streamline the "back shop", in support of Sobeys food focused strategy. This move will leverage technology investments, improve efficiencies and lower costs over the long term. The anticipated cost of this roll-out is expected to approximate $0.20 to $0.25 per Sobeys share in fiscal 2006.

Real Estate

Empire's real estate operations are focused on the development and management of a commercial property portfolio and through a 35.7 percent interest in Genstar, the sale of residential housing lots. Management is committed to strengthening its existing real estate operations while also pursuing accretive acquisitions and developments, primarily in the Ontario market.

At the end of fiscal 2005, real estate operations had 12.9 million square feet under ownership, unchanged from last year. Commercial real estate operations are conducted through Crombie and SLP, while residential land development is primarily conducted through Genstar, which operates principally in high growth communities in Ontario and Western Canada.

Empire's real estate property portfolio is diversified geographically with the commercial property portfolio operating in Atlantic Canada and, to a growing extent, Central Canada, and the residential portfolio operating mainly in Western Canada.

The real estate division now manages 1.1 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.

The commercial property portfolio is also diversified between retail and office use. Today, 87 percent of the gross leasable area in Empire's real estate portfolio is retail space, of which 41 percent is leased to Empire-affiliated companies. The retail segment of the real estate portfolio includes 74 properties. The real estate portfolio also includes nine office properties, representing 13 percent of total gross leasable area.

Investments & 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. common equity investments. At fiscal year-end, Empire's investments, excluding its investment in Genstar, carried a market value of $465.5 million consisting of Canadian common equity investments valued at $331.0 million, foreign common equities valued at $133.0 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 (approximately a 45% ownership position on a fully diluted basis) of $144.6 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, a movie exhibitor with 176 screens in 27 locations in Atlantic Canada and, through a joint venture, 24 screens in four locations in Western Canada. On June 15, 2004, Empire Theatres acquired from Viacom Canada Inc. four cinemas operating 23 screens 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 its energy and capital towards growing the long-term sustainable value of each 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 served is considered by management to be an additional source of strength. Together, these core businesses reduce risk and volatility, thereby contributing to greater consistency in consolidated earnings growth over the long-term. Going forward, the Company intends to continue to direct its resources towards the most promising opportunities within these core businesses in order to maximize long-term shareholder value.

In carrying out the Company's strategic direction, Empire management defines its role as having four fundamental responsibilities: first, to support the development and execution of sound strategic plans for each of its operating companies; second, to regularly monitor the development and the execution of business plans within each operating company; third, to ensure that Empire is well governed as a public company; and fourth, to prudently manage 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 well in excess of the Company's cost of capital and well in excess of returns that would otherwise have been generated by either passively investing, using index-based investments, or from investing in money market investments.

Consolidated Operating Results

The consolidated financial overview presented below reports on the financial performance for fiscal 2005 relative to the last two fiscal years.

Summary Table of Consolidated Financial Results

($ in millions, except per share information)	53 Weeks Ended May 7 2005	% of Revenue	52 Weeks Ended April 30 2004[2]	% of Revenue	52 Weeks Ended April 30 2003	% of Revenue
Revenue						
Food[1]	$ 12,189.4	98.02 %	$ 11,061.4	98.03 %	$ 10,414.5	98.03 %
Real estate, net of inter-segment	171.4	1.38 %	158.2	1.40 %	149.2	1.40 %
Other operations	74.4	0.60 %	64.4	0.57 %	60.5	0.57 %
Consolidated revenue	$ 12,435.2	100.00 %	$ 11,284.0	100.00 %	$ 10,624.2	100.00 %
Operating income						
Food	$ 322.6		$ 293.7		$ 324.2	
Real estate	122.2		111.0		103.8	
Investments and other	18.9		18.1		16.4	
Consolidated operating income	463.7	3.73 %	422.8	3.75 %	444.4	4.18 %
Interest expense	86.7	0.70 %	92.4	0.82 %	93.7	0.88 %
Income taxes (from operating activities)	130.5	1.05 %	108.6	0.96 %	123.9	1.17 %
Minority interest	63.6	0.51 %	58.5	0.52 %	67.5	0.64 %
Operating earnings	182.9	1.47 %	163.3	1.45 %	159.3	1.50 %
Capital gain (loss) and other items, net of tax	3.7	0.03 %	9.2	0.08 %	(6.0)	(0.06)%
Net earnings	$ 186.6	1.50 %	$ 172.5	1.53 %	$ 153.3	1.44 %
Cash flows from operating activities	$ 486.6	3.91 %	$ 467.2	4.14 %	$ 356.1	3.34 %
Total assets	$ 4,929.2		$ 4,679.7		$ 4,519.3	
Total long-term liabilities	$ 1,552.3		$ 1,696.7		$ 1,711.9	
Per share, basic and fully diluted						
Operating earnings	$ 2.78		$ 2.48		$ 2.42	
Capital gain (loss) and other items, net of tax	0.05		0.14		(0.09)	
Net earnings	$ 2.83		$ 2.62		$ 2.33	
Basic and fully diluted weighted average number of shares outstanding	65.7		65.8		65.8	
Dividends	$ 0.48		$ 0.40		$ 0.33	

(1) Fiscal 2004 revenue includes a $14.6 million gain on the sale of several real estate assets.

(2) Fiscal 2004 and fiscal 2003 have been restated to reflect retroactive adjustments related to lease accounting and vendor allowances respectively. Please see the section entitled "Lease Accounting" and "EIC-144, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" in this MD&A.

Explanation of Fiscal 2005 Annual Results

The financial performance for each of the Company's businesses (food, real estate, investments and other operations) are discussed in detail in further sections of this MD&A.

The following is a review of Empire's consolidated performance for the 53 weeks ended May 7, 2005 compared to the 52 weeks ended April 30, 2004.

Revenue

The effect on fiscal 2005 revenue of eliminating the impact of VIE consolidation and the 53rd week of revenue:

($ in millions)	Reported Revenue Fiscal 2005	Growth over Fiscal 2004	VIE Impact	53rd Week Impact	Adjusted	Growth over Fiscal 2004	Reported Revenue Fiscal 2004
Fiscal 2005	12,435	10.2 %	(137)	(241)	12,057	6.9 %	11,284

Each of Empire's operating businesses contributed to growth in the Company's consolidated revenue in fiscal 2005 over the prior fiscal year; an increase of $1,151.2 million or 10.2 percent. The revenue increase is largely attributed to an increase in food division revenues of $1,128.0 million or 10.2 percent over the prior year. Growth in real estate revenues (net of inter-segment) totalled $13.2 million or 8.3 percent, while other operations recorded revenue growth of $10.0 million or 15.5 percent, primarily as a result of strong revenue growth at Empire Theatres.

Fiscal 2005 contained 53 weeks of operations compared to 52 weeks in fiscal 2004. The additional week accounted for $241 million or 2.1 percentage points of the 10.2 percent fiscal 2005 revenue increase. Also impacting revenue growth in fiscal 2005 was the consolidation of VIEs in the fourth quarter, which accounted for approximately $137 million or 1.2 percentage points of the increase over fiscal 2004. Excluding the additional selling week and the VIE consolidation, revenue growth in fiscal 2005 equalled 6.9 percent. Fiscal 2005 revenue growth was also positively impacted by the acquisition of Commisso's Food Markets Limited and Commisso's Grocery Distributors Limited ("Commisso's") by Sobeys and the acquisition by Crombie of certain real estate properties previously owned by Commisso's at the beginning of the fourth quarter of fiscal 2004. Fiscal 2005 revenue contains a full year of Commisso's sales versus only the fourth quarter sales in fiscal 2004.

Operating Income

The year-over-year increase in operating income or earnings before interest and taxes ("EBIT") of $40.9 million or 9.7 percent is the result of a $28.9 million or 9.8 percent increase in operating income contribution from the food distribution division, an $11.2 million or 10.1 percent increase in operating income from the real estate division and an $0.8 million or 4.4 percent increase in operating income from investments and other operations. The year-over-year change in operating income for each division is explained in the section which follows, "Operating Performance by Division".

Interest Expense

The $5.7 million decline in interest expense is largely attributed to reduced interest expense on long-term debt. Interest on long-term debt declined $5.4 million, or 6.2 percent largely as a result of $79.8 million of long-term debt repayments made during the year compared to $39.9 million of new long-term debt issued during the fiscal year.

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

Income Taxes

The fiscal 2005 effective tax rate was 34.6 percent compared to 32.9 percent in fiscal 2004. The fiscal 2004 tax rate was favourably impacted by a lower effective tax rate on a pre-tax capital gain of $14.6 million from real estate divestments recorded by Sobeys in the fourth quarter of the year. As well, there was a slight shift in the current year to a greater portion of taxable earnings in jurisdictions with higher statutory tax rates.

Minority Interest

The Company incurs minority interest expense as a consequence of not owning 100 percent of Sobeys. Fiscal 2005 minority interest equalled $63.6 million, an increase of $5.1 million or 8.7 percent from the $58.5 million recorded in fiscal 2004. The increase in minority interest is attributed to increased Sobeys net earnings offset by an increase in Empire's ownership interest in Sobeys, from 65.0 percent last fiscal year to 68.4 percent at the end of fiscal 2005.

Empire purchased a total of 1,864,600 common shares of Sobeys in fiscal 2005 resulting in the increase in ownership. These share purchases totalled $70.0 million and were funded largely through bank indebtedness. Over the last two years Empire has purchased 3,833,400 common shares of Sobeys for a total cost of $137.8 million.

Operating Earnings

The $19.6 million or 12.0 percent improvement in operating earnings (earnings before net capital gain (loss) and other items) over the prior year was the result of the $40.9 million increase in operating income, the $5.7 million reduction in interest expense, the $21.9 million increase in income tax expense and the $5.1 million increase in minority interest as previously discussed.

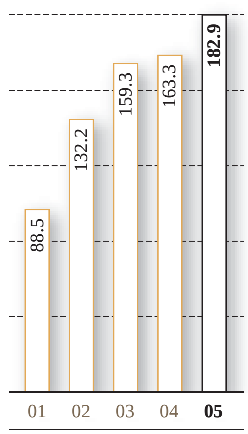
Capital Gain

The capital gain (net of tax) of $3.7 million resulted from the sale of portfolio equity investments during the year (2004 – $9.2 million).

Net Earnings

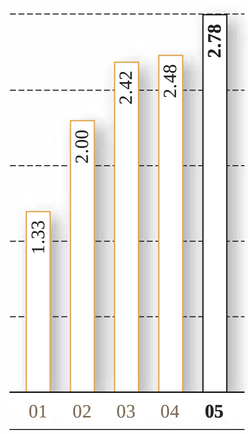
The increase in net earnings of $14.1 million or 8.2 percent from last year is the result of the $19.6 million increase in operating earnings as discussed and the decrease in net capital gain (loss) over the prior year of $5.5 million.

Operating Earnings
($ in millions)



Fiscal Year

Operating Earnings per Share
($ per share)



Fiscal Year

Sobeys
Queensway Store
Toronto, Ontario

Avalon Mall
St. John's, Newfoundland

Operating Performance by Division

Food Division

Highlights

- Sobeys achieved sales growth of 10.3 percent and same-store sales growth of 3.7 percent. Excluding the additional selling week in fiscal 2005 and the consolidation of variable interest entities, Sobeys sales growth equalled 6.9 percent.
- EBITDA as a percentage of sales increased to 4.09 percent compared to 4.05 percent last year. EBITDA increased 11.6 percent.
- Sobeys contributed $123.1 million in net earnings to Empire (66% of total Empire net earnings); a 14.5 percent increase over last year.
- Total property and equipment purchases equalled $268.5 million (total company-wide capital expenditures, which includes franchisee and third party spending, equalled $436.0 million).
- Opened 41 corporate and franchised stores, expanded 19 stores and rebannered 36 stores.
- Launched Compliments, Sobeys new private label brand.
- Rolled-out the first phase of the SMART Retailing initiative and continued implementation of a common point-of-sale system.

Sales

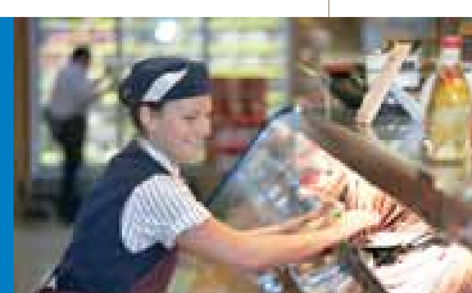
Fiscal 2005 sales illustrated to reflect the elimination of VIE consolidation and the 53rd week of sales:

($ in millions)	Reported Sales Fiscal 2005	Growth over Fiscal 2004	VIE Impact	53rd Week Impact	Adjusted	Growth over Fiscal 2004	Reported Sales Fiscal 2004
Fiscal 2005	12,189	10.3%	(137)	(241)	11,811	6.9%	11,047

In fiscal 2005, Sobeys achieved sales of $12.2 billion, an increase of $1.1 billion or 10.3 percent over fiscal 2004. Fiscal 2005 contained 53 weeks of operations compared to 52 weeks in fiscal 2004. This additional week accounted for $241 million or 2.2 percentage points of the 10.3 percent fiscal 2005 sales increase. Also impacting sales growth in

Sobeys
Toronto, Ontario

IGA
Longlier, Quebec



fiscal 2005 was the consolidation of VIEs in the fourth quarter, which accounted for approximately $137 million or 1.2 percentage points of the increase over fiscal 2004. Finally, the acquisition of Commisso's occurred at the beginning of the fourth quarter of fiscal 2004, therefore fiscal 2005 sales growth was positively impacted by a full year of Commisso's sales versus only the fourth quarter sales in fiscal 2004. Excluding the additional selling week and VIE consolidation, sales growth in fiscal 2005 equalled 6.9 percent.

Sales growth was also driven by Sobeys continued implementation of sales and merchandising initiatives across the country, coupled with the increased retail selling square footage resulting from the opening of new stores and an ongoing program to enlarge and renovate existing store assets.

Store square footage increased by 2.5 percent in fiscal 2005 as a result of the opening of 41 new stores and the expansion of 19 stores.

Sobeys same-store sales, (sales from stores in the same locations in both reporting periods) increased by 3.7 percent.

Sobeys expects continued sales growth in fiscal 2006 as a result of ongoing capital investment in its retail store network, and continued offering, merchandising and marketing improvements across the country.

Earnings before Interest, Income Taxes, Depreciation and Amortization

Sobeys fiscal 2005 EBITDA ("earnings before interest, income taxes, depreciation and amortization") increased $52.0 million or 11.6 percent to $499.0 million from $447.0 million reported in fiscal 2004. EBITDA as a percentage of sales increased to 4.09 percent from 4.05 percent last year.

Included in the previous year EBITDA were one-time pre-tax costs of $20.2 million related to the uninsured cost of the power failure in Ontario ($4.9 million), the adverse outcome in a long-standing real estate lawsuit ($4.0 million), closure costs related to the Grande Prairie and Peace River, Alberta distribution centres ($1.2 million), increase in estimate of store closing costs ($5.3 million), and pension and benefit costs for employees on long-term disability ($4.8 million).

Also included in the previous year EBITDA, was a $14.6 million pre-tax gain on the sale of several redundant real estate assets.

Earnings before Interest, Income Taxes, Depreciation, Amortization and Rent

Fiscal 2005 earnings before interest, income taxes, depreciation and amortization and rent (EBITDAR) was $774.9 million compared to $698.1 million in fiscal 2004. Sobeys leases a substantial portion of its store

Compliments
Selections Brand

Compliments
Sensations Brand

network. Therefore, to arrive at a measure of operating performance excluding the impact of capital, gross rent expense of $275.9 million in fiscal 2005 and $251.1 million in fiscal 2004 is added to EBITDA to arrive at EBITDAR. EBITDAR as a percent of sales in fiscal 2005 was 6.36 percent compared to 6.32 percent in fiscal 2004.

Earnings before Interest and Income Taxes

Sobeys EBIT increased to $322.6 million in fiscal 2005, a 9.6 percent increase from the prior year, with an EBIT margin of 2.65 percent compared to 2.66 percent in fiscal 2004. Included in fiscal 2005 EBIT was a $23.7 million increase in depreciation and amortization expense ($176.4 million current year compared to $152.7 million last year), reflecting Sobeys continued capital investments. The 53rd week of operations in fiscal 2005 favourably impacted EBIT by approximately $6.1 million or 2.1 percentage points.

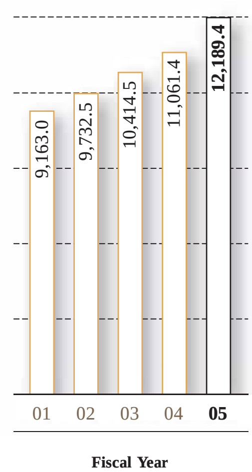
Sobeys will continue to focus on disciplined cost management initiatives, supply chain and retail productivity improvements and migration of best practices across its four regions to continue to fuel and fund investments to drive sales and improve margins over time.

Net Earnings

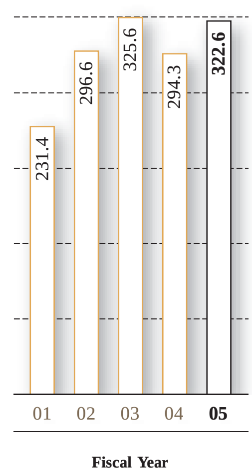
Sobeys' fiscal year 2005 net earnings were $186.7 million compared with $166.5 million last year, a $20.2 million or 12.1 percent increase. Sobeys net earnings in fiscal 2005 were favourably impacted by approximately $3.5 million as a result of the 53rd week of operations. Fiscal 2005 net earnings reflect increased depreciation and amortization expense, while fiscal 2004 earnings were impacted by the net effect of the one-time items and gain on sale of redundant real estate, both referred to above. The consolidation of VIEs resulted in a $0.6 million reduction in net earnings in fiscal 2005.

Sobeys' contribution to Empire's net earnings equalled $123.1 million (66.0 percent of Empire consolidated net earnings) compared to $107.5 million (62.3 percent of consolidated earnings) the previous fiscal year, a 14.5 percent increase.

Food Division Revenue
($ in millions)



Food Division Operating Income
($ in millions)



Real Estate Division

Highlights

- Occupancy rate remained strong at 93.5 percent (93.6 percent last year).
- Exceptional year for residential operations with growth in net earnings of 25.3 percent.
- Funds from operations increased 10.3 percent to $64.4 million from $58.4 million last year.
- The real estate portfolio was strengthened and diversified through the development of existing properties and continued residential development activity through Genstar.

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

($ in millions)	53 weeks ended May 7, 2005	% Change over 2004	52 weeks ended April 30, 2004	% Change over 2003
Revenue				
Commercial	$ 194.2	7.7 %	$ 180.3	4.0 %
Residential	35.0	15.9 %	30.2	19.4 %
	229.2	8.9 %	210.5	6.0 %
Inter-segment	(57.8)	10.5 %	(52.3)	5.9 %
	$ 171.4	8.3 %	$ 158.2	6.0 %
Funds from operations				
Commercial	$ 42.7	4.7 %	$ 40.8	9.4 %
Residential	21.7	23.3 %	17.6	7.3 %
	$ 64.4	10.3 %	$ 58.4	8.8 %
Net earnings				
Commercial	$ 24.4	(2.0)%	$ 24.9	18.0 %
Residential	21.3	25.3 %	17.0	(4.5)%
	$ 45.7	9.1 %	$ 41.9	7.7 %

Genstar
Calgary, Alberta

Barhaven
Ottawa, Ontario

Revenue

Commercial property related revenue increased $13.9 million or 7.7 percent as a result of continued strong occupancy rates, generally higher rental renewal rates, ongoing property development, and acquisition activity that occurred in the fourth quarter last year. At the start of the fourth quarter last fiscal year, Crombie acquired six properties from Commisso's Properties Ltd. in Southwestern Ontario which added gross leasable area of 0.5 million square feet.

Leasing activity has remained strong with an overall (retail plus office) occupancy rate of 93.5 percent, relatively unchanged from 93.6 percent a year ago. The retail occupancy rate was 94.2 percent compared to 94.4 percent a year earlier. Office vacancy at 9.5 percent compared to 9.8 percent a year earlier remained below the average office 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 15.9 percent largely as a result of stronger than expected lot sales in Genstar's Western Canadian operation, particularly in Calgary and Edmonton markets. Genstar continues to benefit from continued strong housing markets in Western Canada. At this time, it is expected that this trend will continue for the remainder of the calendar year.

Operating Income

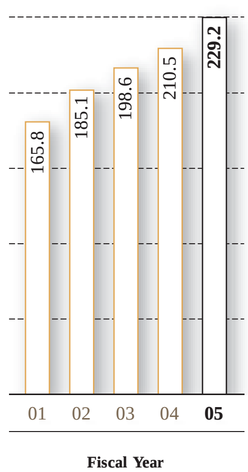
The $11.2 million or 10.1 percent increase in real estate division operating income in fiscal 2005 was largely the result of a strong contribution from Genstar, the benefit of having the six Ontario properties acquired in the fourth quarter last year for a full operating year, successful re-development activities and generally higher net effective rental rates. Costs and operating costs as a percentage of revenues were unchanged at 39.5 percent. The real estate operation contributed 26.4 percent of Empire's total operating income in fiscal 2005 (2004 – 26.3 percent).

Net Earnings

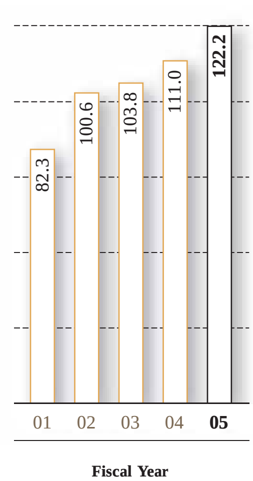
Real estate division contribution to Empire's fiscal 2005 net earnings was $45.7 million (24.5 percent of Empire consolidated net earnings), an increase of $3.8 million or 9.1 percent from the $41.9 million recorded in fiscal 2004. The increase is principally the result of the higher operating income generated in fiscal 2005 net of additional income tax expense paid. Interest expense was relatively unchanged from the prior year.

Funds from operations (net income plus depreciation) increased 10.3 percent to $64.4 million from $58.4 million last year as a result of improved operating earnings performance.

Real Estate Revenue
($ in millions)



Real Estate Operating Income
($ in millions)



Investments and Other Operations

Highlights

- Empire's liquid portfolio investments generated a 26.9 percent return in fiscal 2005, resulting in first quartile return performance.
- Four-year annualized return performance for Empire's portfolio investments was 16.2 percent compared to a 7.9 percent total return for the S&P/TSX Composite Index and a negative 4.5 percent total return for the S&P 500 Index, in Canadian dollars.
- Net investment capital gains of $3.7 million were realized in fiscal 2005 largely as a result of the sale of common equity investments.
- Empire Theatres acquired four locations with 23 screens from Viacom Canada Inc. in Nova Scotia and New Brunswick, purchased one independent theatre and constructed one new theatre.

Investment Value

At fiscal year-end, May 7, 2005, Empire's total investments (excluding cash) carried a market value of $465.5 million on a cost base of $325.9 million, resulting in an unrealized gain of $139.6 million. This compares to an unrealized gain of $66.2 million at the end of fiscal 2004.

Portfolio Composition

At fiscal year end, May 7, 2005, Empire's investment portfolio consisted of:

$ in millions (Canadian)	Market Value	% of Portfolio	Cost	Unrealized Gain (Loss)
Canadian equities	$ 186.4	40.0%	$ 135.0	$ 51.4
U.S. equities	133.0	28.6	134.3	(1.3)
Wajax	144.6	31.1	55.1	89.5
Preferred and other	1.5	0.3	1.5	–
	$ 465.5	100.0%	$ 325.9	$ 139.6

Empire's direct debt matched to these investments was $137.7 million Canadian at year-end, equivalent to 29.6 percent of total investment market value. Management considers a ratio of debt to investment value of no greater than 35 percent as prudent.

Revenue

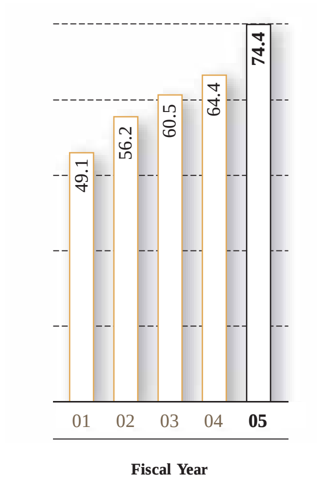
Investments and other operations' revenue, primarily generated by Empire Theatres, reached $74.4 million versus $64.4 million last year. Revenue growth at Empire Theatres was primarily the result of the acquisition of the

Park Lane Theatre
Halifax, Nova Scotia

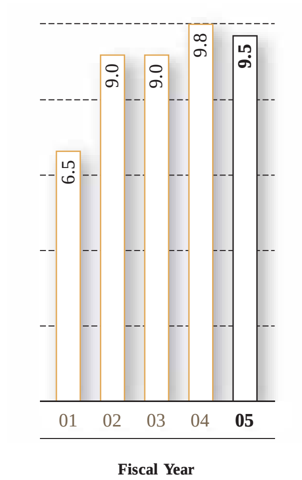
Bayers Lake Theatre
Halifax, Nova Scotia

23 screens from Viacom Canada Inc. along with continued modernization of existing locations. Empire Theatres had 176 screens in operation at the end of fiscal 2005 compared to 149 at the end of the prior fiscal year.

Other Operations Revenue
($ in millions)



Other Operations Operating Income
($ in millions)



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 (i.e. in the top 25 percent of surveyed equity fund managers) over one, two, three, four and five year trailing periods ended March 31, 2005, respectively.

Total portfolio return for the twelve month period ended March 31, 2005 was 26.9 percent. This compares to a 13.9 percent total return for the S&P/TSX Composite Index and a negative 1.5 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 quartile for the twelve month period ended March 31, 2005.

The tables below present the return performance for Empire's investments, relative to Canadian and U.S. equity benchmarks over each of the last five years ended March 31st, as well as on a two, three, four and five-year annualized compounded basis. Investment returns are measured using a calendar quarter-end cycle, consistent with industry practice.

Total Investment Return

(Annual Returns for Periods Ended March 31)	2001	2002	2003	2004	2005
Empire Investment Portfolio	19.8%	18.2%	–25.6%	63.4%	26.9%
S&P/TSX Composite Index	–18.6%	4.9%	–17.6%	37.7%	13.9%
S&P 500 Index (in Cdn.$)	–14.8%	1.4%	–30.7%	20.5%	–1.5%

Total Investment Return

(Annualized Compound Returns for Periods Ended March 31, 2005)	2-year	3-year	4-year	5-year
Empire Investment Portfolio	44.0%	15.5%	16.2%	16.9%
1st Quartile Manager Return	23.8%	5.8%	5.8%	4.7%
Median Manager Return	20.6%	4.2%	4.0%	1.8%
S&P/TSX Composite Index	25.3%	8.9%	7.9%	2.0%
S&P 500 Index (in Cdn.$)	8.9%	–6.3%	–4.5%	–6.6%

The median manager and first quartile manager returns as presented in the table above were calculated using Canadian and U.S. equity manager return data, as supplied by an independent analytical firm, multiplied by the respective Canadian and U.S. equity weights for the Empire investment portfolio.

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. Management remains committed to prudently managing a high quality, liquid portfolio of common equities to augment the growth in the Company's core operating businesses.

Performance Attribution

The increase of $73.4 million in investment market value over book cost over the last twelve months ending March 31, 2005 was largely attributed to a $57.9 million increase in the unrealized gain position in the Wajax investment combined with an increase in value of the majority of liquid common equities in the portfolio. Investments in Wajax, financial-related equities and energy-related equities performed particularly well relative to overall benchmark index returns.

Hedging Investment Currency Risk

At May 7, 2005, Empire had hedged approximately 75 percent of the market value of its U.S. based common equity investments by way of $61.0 million in U.S. dollar short-term borrowings. The average foreign exchange rate associated with these U.S. dollar bank loans is $1.3538 (73.86 cents). The fair value of the hedge was $5.2 million at the end of the fiscal year (close to zero dollars at the end of fiscal 2004) as a result of the foreign exchange rate equalling $1.2432 (80.44 cents) at the end of the fiscal year. Management has documented and accounted for the U.S. bank loans as a fair value hedge. This hedge value is not included in the $139.6 million unrealized investment gain discussed above.

Capital Allocation from Investments

During fiscal 2005 Empire purchased 1,864,600 common shares of Sobeys for a total cost of $70.0 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 of 3.4 percentage points, with total interest of 68.4 percent at the end of fiscal 2005 versus 65.0 percent a year earlier. Over the last two years Empire has purchased 3,833,400 common shares of Sobeys for a total cost of $137.8 million, serving to increase its ownership from 62.0 to 68.4 percent over this time period.

Investment Income

Investment income generated by the investment portfolio equalled $18.8 million in fiscal 2005, an increase of $2.9 million or 18.2 percent over the prior year. The increase is the result of equity accounted earnings from Wajax being higher than last year by $4.6 million combined with a decrease in dividend income of $1.7 million. The decline in dividend income was expected as a result of changes in the investment portfolio mix. The growth in Wajax equity earnings was higher than expected and is largely the result of management's attention to cost controls and a strong resource sector which benefits Wajax products and services.

Operating Earnings

Fiscal 2005 operating earnings from investments (net of corporate expenses) and other operations equalled $14.1 million, an increase of $0.4 million or 2.9 percent over the prior year. The increase is attributed to the $2.9 million increase in investment income offset by a $0.6 million reduction in theatre operating earnings and a $1.9 million increase in corporate expenses.

Capital Gain

The capital gain (net of tax) realized on the sale of investments in fiscal 2005 of $3.7 million (2004 – $9.4 million) was largely the result of the sale of common equity investments.

Net Earnings

Investments (net of corporate expenses) and other operations contributed $17.8 million to Empire's consolidated net earnings (9.5 percent of Empire consolidated net earnings). This compares to a $23.1 million net earnings contribution last year (13.4 percent of Empire consolidated net earnings). The decline is due to the reduction in realized capital gains as discussed offset by the increase in operating earnings.

Quarterly Results of Operations

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

($ in millions, except per share information)	Q4 (14 weeks) May 7, 2005	Q3 (13 weeks) Jan. 29, 2005	Q2 (13 weeks) Oct. 30, 2004	Q1 (13 weeks) July 31, 2004	Q4 (13 weeks) Apr. 30, 2004	Q3 (13 weeks) Jan. 31, 2004	Q2 (13 weeks) Oct. 31, 2003	Q1 (13 weeks) July 31, 2003
Revenue	$3,360.2	$2,978.5	$3,022.8	$3,073.7	$ 2,876.4	$ 2,798.5	$ 2,794.4	$ 2,814.7
Operating income	124.0	113.3	111.6	114.8	100.9	109.9	104.4	107.6
Operating earnings	49.3	46.2	42.9	44.5	41.0	44.0	38.9	39.4
Net capital gain (loss) and other items	5.5	1.4	(3.0)	(0.2)	(0.1)	8.8	(2.2)	2.7
Net earnings	$ 54.8	$ 47.6	$ 39.9	$ 44.3	$ 40.9	$ 52.8	$ 36.7	$ 42.1
Per Share Information, basic and fully diluted								
Operating earnings [1]	$ 0.75	$ 0.70	$ 0.66	$ 0.67	$ 0.62	$ 0.67	$ 0.59	$ 0.60
Net capital gain (loss) and other items	0.08	0.02	(0.05)	–	–	0.13	(0.03)	0.04
Net earnings	$ 0.83	$ 0.72	$ 0.61	$ 0.67	$ 0.62	$ 0.80	$ 0.56	$ 0.64
Weighted average number of shares outstanding *(in millions)*	65.7	65.8	65.8	65.8	65.8	65.8	65.8	65.8

All quarters previous to the fourth quarter of fiscal 2005 have been restated to reflect the retroactive adjustment related to lease accounting and EIG-144. Please see the sections entitled "Lease Accounting" and "EIC-144" in this fiscal 2005 annual MD&A.

(1) Operating earnings is net earnings before net capital gain (loss) and other items.

The Company's operations are impacted to some degree by certain holiday periods in the year; however business is not materially cyclical or seasonal.

Fourth Quarter Results

Summary Table of Consolidated Financial Results for the Fourth Quarter

($ in millions, except per share data)	14 Weeks Ended May 7, 2005 $	14 Weeks Ended May 7, 2005 % of Revenue	13 Weeks Ended April 30, 2004 $	13 Weeks Ended April 30, 2004 % of Revenue
Revenue	$ 3,360.2	100.00%	$ 2,876.4	100.00%
Operating income	124.0	3.69%	100.9	3.51%
Interest expense	23.3	0.69%	22.7	0.79%
Income taxes	36.6	1.09%	24.1	0.84%
Net earnings	54.8	16.3%	40.9	1.42%
Per Share, basic and diluted				
Operating earnings	$ 0.75		$ 0.62	
Weighted average number of shares outstanding, basic and diluted (in millions)	65.7		65.8	
Dividends	$ 0.120		$ 0.100	

Fourth quarter fiscal 2004 has been restated to reflect retroactive adjustments related to lease accounting and EIC-144.

Impact of VIEs on Revenue, EBIT and EBITDA

($ in millions)	Excluding VIEs 14 Weeks Ended May 7, 2005 $	% of Revenue	Including VIEs 14 Weeks Ended May 7, 2005 $	% of Revenue
Revenue	$ 3,222.8	100.00%	$ 3,360.2	100.00%
Operating income	124.2	3.85%	124.0	3.69%
Earnings, before interest, taxes, depreciation and amortization	172.2	5.34%	173.8	5.17%

The following is a review of financial performance for the 14-week period ended May 7, 2005 compared to the 13-week period ended April 30, 2004.

Revenue

Revenue for the fourth quarter was $3.36 billion compared to $2.87 billion last year, a 16.8 percent increase. The food division reported revenue of $3.29 billion, an increase of $477.0 million or 16.9 percent (Sobeys' revenue in the fourth quarter last year includes a capital gain of $14.6 million). For the food division, the fourth quarter of fiscal 2005 contained 14 weeks of operations compared to 13 weeks in fiscal 2004. The additional week accounted for approximately $241 million of the revenue increase. Also impacting revenue growth was the consolidation of variable interest entities in the fourth quarter, this accounted for approximately $137 million of the revenue increase over fiscal 2004.

The table below presents the impact of the additional selling week and the consolidation of variable interest entities in the fourth quarter on Empire's consolidated revenue.

($ in millions)	Reported Revenue Q4 2005	Growth over Q4 2004	VIE Impact	53rd Week Impact	Adjusted	Growth over 2004	Reported Revenue Q4 2004
Fourth Quarter	3,360	16.8%	(137)	(241)	2,982	3.7%	2,876

Revenue increased $483.8 million or 16.8 percent compared to the fourth quarter of fiscal 2004. The fourth quarter of fiscal 2005 contained 14 weeks of operations compared to 13 weeks in fiscal 2004 and this additional week accounted for approximately $241 million or 8.4 percentage points of the fourth quarter sales increase. Another significant impact on quarter four revenue growth in fiscal 2005 was the consolidation of VIEs in the fourth quarter, which accounted for approximately $137 million or 4.7 percentage points of the increase over fiscal 2004. The acquisition of Commisso's occurred at the beginning of the fourth quarter of fiscal 2004 and as a result it did not impact the quarter-over-quarter growth. Excluding the additional selling week and the VIE consolidation, fourth quarter revenue growth in fiscal 2005 equalled 3.7 percent.

Food division same-store sales grew 4.5 percent during the fourth quarter of fiscal 2005. The growth in retail sales was a direct result of Sobeys' aggressive pricing posture, the continued implementation of sales and merchandising initiatives across Sobeys, increased retail selling square footage of 0.6 million additional square feet and Sobeys' ongoing financial commitment to upgrade and renovate existing store assets. Same-store sales growth outpaced overall Company sales growth as there was no growth in Sobeys' wholesale sales to independent customers in the fourth quarter this year compared to the fourth quarter last year. In particular, Sobeys experienced a decline in the sale of tobacco products to its independent wholesale customers. Wholesale sales to independent customers are not included in same-store sales growth.

Minority Interest

The $2.8 million increase in minority interest relative to the fourth quarter last year was the result of higher earnings from Sobeys offset by an increase in Empire's ownership interest. The purchase of 1.5 million Sobeys shares in early April 2005 served to increase Empire's interest in Sobeys from 66.1 percent to 68.4 percent.

Operating Earnings

The $8.3 million or 20.2 percent increase in operating earnings over the fourth quarter last year is the result of a $7.5 million increase in food distribution division earnings contribution; a $1.5 million increase in real estate division earnings contribution and a $0.7 million decrease in earnings contribution from investments and other operations.

Capital Gain (Loss)

The capital gain (net of tax) of $5.5 million and the net capital loss of $0.1 million recorded in the fourth quarter of fiscal 2005 and fiscal 2004, respectively, were the result of the sale of investments.

Net Earnings

Net earnings in the fourth quarter, including net capital gains and other items, totalled $54.8 million or $0.83 per share versus $40.9 million or $0.62 per share in the fourth quarter last year. Sobeys accounted for $7.5 million of the increase in consolidated earnings. Sobeys earnings were favourably impacted by approximately $3.5 million as a result of the additional week of operations in the fourth quarter fiscal 2005. The additional week positively impacted Empire's net earnings by $2.4 million.

Financial Condition

Assets and Net Asset Value

At fiscal year end May 7, 2005, management calculates Empire's consolidated net asset value (management's estimate of the market value of the Company's assets less indebtedness) at $2,536 million ($38.59 per Empire common share), an increase of $491 million or 24.0 percent from the calculated net asset value at April 30, 2004 of $2,045 million ($31.08 per Empire common share).

The table below presents the composition of net asset value by business segment:

	May 7, 2005		April 30, 2004	
($ in millions)	Net Asset Value	Percent of Total	Net Asset Value	Percent of Total
Food (1)	$ 1,662	62%	$ 1,226	58%
Real Estate (2)	493	18%	452	21%
Investments and Other (3)	527	20%	453	21%
	$ 2,682	100%	$ 2,131	100%
Less: corporate debt and preferred shares	146		86	
Net asset value	$ 2,536		$ 2,045	
Per share	$ 38.59		$ 31.08	

(1) Food division net asset value at May 7, 2005 equals the 44.67 million common shares of Sobeys owned at fiscal year-end multiplied by the market price of a Sobeys common share at fiscal year-end. Food distribution net asset value at April 30, 2004 equalled the 42.81 million common shares of Sobeys owned at fiscal year-end multiplied by the market price of a Sobeys common share at fiscal year-end.

(2) Real estate net asset value for May 7, 2005 and for April 30, 2004 respectively have been calculated at nine times trailing funds from commercial operations plus five times trailing funds from residential operations.

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

Real estate operations reported fourth quarter revenues (net of inter-company eliminations) of $47.4 million, an increase of $4.0 million or 9.2 percent over the fourth quarter last year. Commercial property revenue grew by $1.6 million or 4.8 percent while revenue from residential operations increased $2.4 million or 24.2 percent. The growth in commercial property revenues was the result of continued strong occupancy levels and generally higher rental renewal rates. The increase in residential revenue from Genstar was the result of exceptionally strong lot sales, particularly in Calgary and Edmonton markets.

Operating Income

The $23.1 million or 22.9 percent increase in consolidated operating income in the fourth quarter was largely the result of an $18.9 million or 28.8 percent increase in food division operating income contribution to Empire compared to the fourth quarter last year.

Sobeys' EBITDA for the quarter ended May 7, 2005 was $133.1 million; an increase of 20.0 percent or $22.2 million versus the $110.9 million recorded in the same quarter last year. EBITDA as a percentage of sales increased to 4.04 percent from 3.96 percent when compared to fourth quarter fiscal 2004 results. Sobeys experienced a modest increase in gross margin percentage, excluding the impact of consolidating VIEs, compared to the same quarter last year as a result of the continued implementation of enhanced merchandising programs and store productivity initiatives.

Sobeys' EBITDA for the fourth quarter of fiscal 2005 was also positively impacted by approximately $6.1 million due to the extra week of operations in the fourth quarter. EBITDA for the fourth quarter of fiscal 2004 was positively impacted by the sale of redundant real estate for a pre-tax gain of $14.6 million and negatively impacted by expenses related to an increase in an 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. The net impact from the gain, store closure costs and pension and benefit amounts was $0.06 per Sobeys share, after tax.

Sobeys' EBIT for the fourth quarter increased $18.3 million or 27.6 percent to $84.6 million. EBIT margin, which is EBIT divided by sales, for the fourth quarter increased to 2.57 percent from 2.37 percent in the same quarter last year.

Real Estate division operating income grew by $3.7 million or 11.7 percent over the fourth quarter last year. Commercial operations operating income was unchanged at $23.0 million while residential operations operating income increased 43.5 percent to reach $12.2 million. This scale of growth in residential operations operating income is not expected to be sustainable. Management recognizes that selling residential lots is a cyclical industry and that growth will likely soften when interest rates rise and/or other macroeconomic events dampen residential real estate activity.

Investments and other operations' fourth quarter operating income increased by $0.5 million, as a result of a $1.8 million increase in investment income, offset by increased corporate expenses of $0.7 million and a reduction in operating income from other operations of $0.6 million.

Interest Expense

The $0.6 million increase in fourth quarter interest expense is due to an increase in interest expense connected to short-term debt. The Company's bank loans increased in the fourth quarter as a result of funding the purchase of 1.5 million common shares of Sobeys in early April, 2005. Sobeys' consolidation of VIEs also served to increase interest expense.

Income Taxes

The effective income tax rate for the fourth quarter was 35.2 percent compared to 30.7 percent in the fourth quarter last year. The fiscal 2004 quarterly tax rate was favourably impacted by the lower effective rate on a capital gain recorded by Sobeys of $14.6 million in the fourth quarter. In fiscal 2005 there was a shift to a greater portion of taxable earnings in jurisdictions with higher statutory rates.

At May 7, 2005, approximately 80 percent of Empire's net asset value was derived from assets that are valued by publicly available market prices from 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 approximately $0.68 per share.

Book value per common share was $25.87 at May 7, 2005, compared to $23.67 at April 30, 2004.

The Company's financial condition at May 7, 2005 continued to strengthen as indicated in the table below.

Capital Structure and Key Financial Condition Measures

($ in millions, except ratio calculations)	May 7, 2005	April 30, 2004
Shareholders' equity	$ 1,709.0	$ 1,567.6
Short-term debt	$ 219.4	$ 140.8
Long-term debt, including current portion	$ 974.4	$ 995.7
Funded debt to total capital	41.4%	42.2%
Adjusted debt to total capital(1)	57.4%	55.3%
Debt to EBITDA	1.87x	1.98x
Interest coverage	5.35x	4.58x
Total assets	$ 4,929.2	$ 4,679.7

(1) Adjusted debt includes capitalization of lease obligations based on six times net annual lease payments (gross lease payments net of expected sub-lease income).

Shareholders' Equity

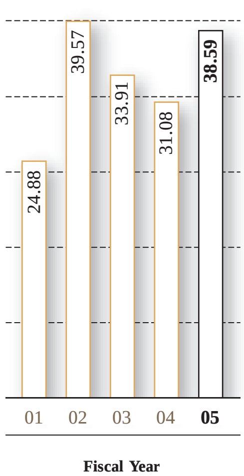
Total common shares outstanding at May 7, 2005 equalled 65,735,810, relatively unchanged from a year ago. There were 31,150,585 Non-Voting Class A shares outstanding and 34,585,225 Class B common shares outstanding at May 7, 2005. During fiscal 2005, 9,400 options were exercised compared to 30,000 in fiscal 2004. At May 7, 2005, Empire had 27,674 options outstanding expiring in October, 2006.

During fiscal 2005 Empire purchased for cancellation 100,000 series 2 preferred shares for $2.5 million. 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 2005 Empire purchased 61,129 Non-Voting Class A shares for cancellation versus 68,477 shares purchased for cancellation in fiscal 2004.

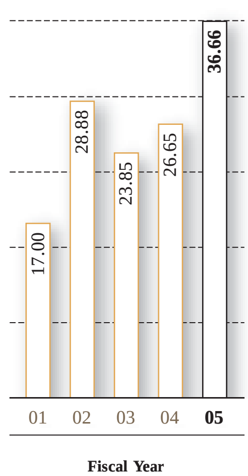
At July 15, 2005, Empire had 65,756,064 common shares outstanding, consisting of 31,170,839 Non-Voting Class A shares and 34,585,225 Class B common shares outstanding, along with 27,674 options outstanding expiring in October, 2006. Options allow the holder to purchase Non-Voting Class A shares at $6.555 per share.

Dividends paid to common shareholders amounted to $31.6 million ($0.48 per share) versus $26.3 million ($0.40 per share) for the same period last year.

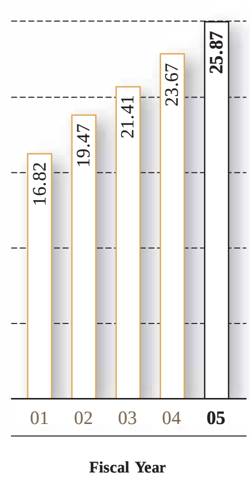
Net Asset Value per Share
($ per share)



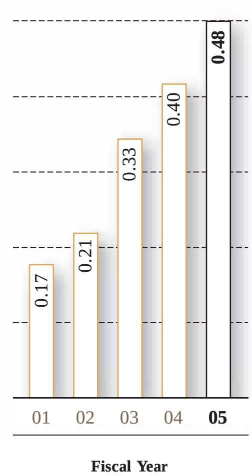
Closing Share Price
($ per share)



Book Value per Share
($ per share)



Common Dividends per Share
($ per share)



Liabilities

Empire finances a significant portion of its assets through the use of debt (consisting of 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 fiscal year-end of $861.3 million represents 71.4 percent of Empire's total funded debt. Long-term debt (including current portion) by operating company is detailed in the table below.

($ in millions)	May 7, 2005	April 30, 2004
Food	$ 457.8	$ 453.1
Real Estate	512.2	538.2
Other Operations	4.4	4.4
Total	$ 974.4	$ 995.7

Of the total long-term debt outstanding at fiscal year end, 47.0 percent was directly related to the food distribution segment, 52.6 percent was directly related to the real estate segment, and 0.4 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 predominately with fixed-rate long-term debt, thereby reducing both interest rate and refinancing risk.

A total of $488.1 million in long-term debt is due within the next five years, and a further $486.3 million with longer maturities. The fair value of the Company's long-term debt is estimated to be $1,126.0 million. Long-term debt maturities, including capital leases, in fiscal 2006 and 2007 amount to $247.0 million and $42.6 million, respectively. The Company anticipates being able to fund these maturities through the following sources of cash: cash generated from operations, use of short-term credit facilities and the issuance of additional long-term debt. Management monitors capital markets with a view to replacing maturing debt with new debt having longer-term maturities.

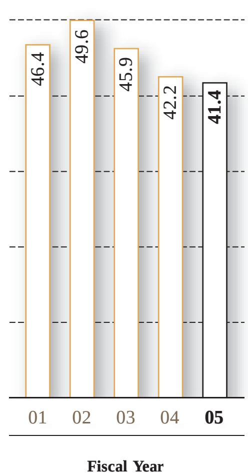
At May 7, 2005, interest coverage (operating income divided by interest expense) improved to 5.35 times from the 4.58 times coverage reported as of April 30, 2004. The improvement in coverage is the result of a 9.7 percent increase in year-over-year operating income coupled with a 6.2 percent decrease in interest expense over the same period. The ratio of debt to EBITDA also improved from last fiscal year end, reflecting the growth in EBITDA.

The debt to total capital ratio declined 0.8 percentage points to 41.4 percent as a result of equity growing at a faster rate than funded debt. Excluding the impact of the VIEs (variable interest entities), the ratio of debt to total capital would be 40.8 percent. The net debt (debt less cash and cash equivalents) to total capital ratio declined 1.1 percentage points to 36.6 percent.

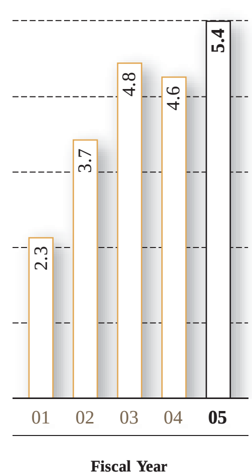
The Company also monitors adjusted debt to total capital, where net annual lease payments are capitalized at six times annual lease payments, and this capitalized lease obligation is then added to funded debt. Adjusted debt to capital at fiscal year end was 57.4 percent versus 55.3 percent the prior year.

Empire's investment portfolio consisting of liquid publicly traded securities also strengthens the Company's financial position. At fiscal year end May 7, 2005 the portfolio carried a market value of $465.5 million (2004 – $390.9 million).

Funded Debt to Total Capital
(percentage)



Interest Coverage
(times)



Through established credit ratings, Empire and Sobeys maintain access to the capital markets. 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.

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with in fiscal 2005 and fiscal 2004.

Empire anticipates ready availability of any required longer-term financing due to its investment grade credit rating and previous experience in the capital markets.

Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage exposure to interest rate volatility and also to fix future long-term debt maturities which are expected to be refinanced. At May 7, 2005, the gross notional amount of all interest exchange agreements totalled $43.8 million at rates ranging from 4.22 percent to 6.18 percent.

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. Sobeys has locked in the interest rate on the underlying government of Canada 15 year yield, for refinancing $100 million of a November 2005 Series A Medium Term Note (MTN) maturity, using a bond forward.

Liquidity and Capital Resources

Sources of Liquidity

Empire's liquidity remains strong as a result of the following sources of liquidity:

- Cash and cash equivalents on hand;
- Unutilized bank credit facilities;
- Availability of long-term debt financing;
- Empire's portfolio of liquid investments; and
- Cash generated from operating activities

The Company anticipates that these sources of liquidity will be sufficient to meet expected cash outflows over the next year.

At May 7, 2005 cash and cash equivalents were $281.7 million versus $202.2 million at April 30, 2004.

On a non-consolidated basis, Empire maintains authorized bank lines for operating, general and corporate purposes of $325.0 million, of which 41 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 $548.2 million at May 7, 2005.

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 (MTN) program. Sobeys' Short Form Base Shelf Prospectus, which enables the issuance of MTNs, expired on January 20, 2005. In view of the high levels of liquidity and access to committed credit facilities, Sobeys is determining when it will renew its MTN program.

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 as mentioned and previous capital markets experience.

Major Cash Flow Components

($ in millions)	14 Weeks May 7, 2005	13 Weeks April 30, 2004	53 Weeks May 7, 2005	52 Weeks April 30, 2004
Earnings for Common Shareholders	$ 54.8	$ 40.8	$ 186.3	$ 172.1
Items not affecting cash	95.0	80.2	316.0	272.3
	149.8	121.0	502.3	444.4
Net change in non-cash working capital	111.8	147.7	(15.7)	22.8
Cash flows from operating activities	261.6	268.7	486.6	467.2
Cash flows used in investing activities	(205.8)	(169.1)	(447.0)	(435.6)
Cash flows (used in) from financing activities	34.9	(26.9)	7.0	(147.5)
Discontinued operations	–	–	–	1.3
Initial impact of variable interest entities	32.9	–	32.9	–
Increase (decrease) in cash and cash equivalents	$ 123.6	$ 72.7	$ 79.5	$ (114.6)

Fiscal 2004 has been restated to reflect retroactive adjustments related to release accounting and EIC-144. See sections entitled "Lease Accounting" and "EIC-144" in this MD&A.

Operating Activities

Cash flows from operating activities amounted to $261.6 million in the fourth quarter compared to $268.7 million in the fourth quarter last fiscal year. The decrease of $7.1 million was attributed to a decline in non-cash working capital of $35.9 million, offset by increased earnings for common shareholders of $14.0 million, and an increase in items not affecting cash of $14.8 million.

Cash flows from operating activities on an annual basis amounted to $486.6 million compared to $467.2 million last fiscal year. The increase of $19.4 million was the result of a $14.2 million improvement in earnings for common shareholders, a $43.7 million increase in items not affecting cash (primarily as a result of a $27.8 million increase in depreciation and amortization expense) offset by a $38.5 million decline in non-cash working capital.

Major Components of Non-Cash Working Capital (Including VIEs)

($ in millions)	Including VIEs as of May 7, 2005	Jan. 29, 2005	Quarter Increase (Decrease) in Cash Flows	April 30, 2004	Year-to-Date Increase (Decrease) in Cash Flows
Receivables	$ 257.8	$ 298.9	$ 41.1	$ 329.5	$ 71.7
Inventories	639.6	543.5	(96.1)	483.6	(156.0)
Prepaid expenses	52.3	40.8	(11.5)	49.3	(3.0)
Accounts payable and accrued liabilities	(1,149.1)	(1,042.9)	106.2	(1,138.4)	10.7
Income taxes receivable (payable)	15.0	12.5	(2.5)	(7.2)	(22.2)
Variable interest entities	(74.2)	–	74.2	–	74.2
Business acquisitions and reclassifications	(8.9)	(8.5)	0.4	–	8.9
Total	$ (267.5)	$ (155.7)	$ 111.8	$ (283.2)	$ (15.7)

Fiscal 2004 has been restated to reflect retroactive adjustments related to release accounting and EIC-144. See sections entitled "Lease Accounting" and "EIC-144" in this MD&A.

Major Components of Non-Cash Working Capital (Excluding VIEs)

($ in millions)	Excluding VIEs as of May 7, 2005	Jan. 29, 2005	Quarter Increase (Decrease) in Cash Flows	April 30, 2004	Year-to-Date Increase (Decrease) in Cash Flows
Receivables	$ 279.7	$ 298.9	$ 19.2	$ 329.5	$ 49.8
Inventories	518.3	543.5	25.2	483.6	(34.7)
Prepaid expenses	48.1	40.8	(7.3)	49.3	1.2
Accounts payable and accrued liabilities	(1,119.5)	(1,045.7)	73.8	(1,138.4)	(18.9)
Income taxes receivable (payable)	14.8	12.5	(2.3)	(7.2)	(22.0)
Business acquisitions and reclassifications	(8.9)	(8.5)	0.4	–	8.9
Total	$ (267.5)	$ (158.5)	$ 109.0	$ (283.2)	$ (15.7)

Fiscal 2004 has been restated to reflect retroactive adjustments related to release accounting and EIC-144. See sections entitled "Lease Accounting" and "EIC-144" in this MD&A.

Excluding the impact of VIEs, receivables decreased $19.2 million, inventory levels decreased $25.2 million and accounts payable and accrued liabilities increased $73.8 million compared to the third quarter of fiscal 2005. Contributing to the decrease in accounts receivable during the fourth quarter is the collection of supplier revenue that was outstanding at the end of the third quarter. The increase in accounts payable and accrued liabilities was consistent with the prior year and can be attributed to a combination of higher trade payables and higher accrued liabilities such as construction costs and employee incentives.

Compared to April 30, 2004 fiscal year-end levels and excluding the impact of the VIEs, accounts receivable decreased $49.8 million, inventory increased $34.7 million and income taxes payable decreased $22.0 million. The decrease in receivables is primarily attributable to the reclassification of $31.0 million of customer-related payables in the second quarter of fiscal 2005. Historically, some customer receivables were reported at a gross value and the customer payables were reported in accounts payable. During the second quarter of fiscal 2005, the food division began netting the receivables and related payables for these customers. The increase in inventory is required to support Sobeys' expanded store network and growing sales.

Investing Activities

Cash flows used in investing activities of $205.8 million in the fourth quarter was $36.7 million higher than in the fourth quarter of last fiscal year. The increase is largely the result of $58.6 million of cash used to purchase common shares of Sobeys in the quarter compared to $1.0 million used to purchase Sobeys' shares in the fourth quarter last year. In fiscal 2004, proceeds from the sale of redundant real estate assets were partially offset by the cost of the Commisso's acquisition.

Fiscal year cash used in investing activities increased $11.4 million to total $447.0 million. Purchases of shares in Sobeys totalled $93.5 million in fiscal 2005 compared to $74.2 million last fiscal year. Other factors contributing to the increase included proceeds from the sale of property being $46.3 million lower than the prior year and purchases of property, equipment and other assets being down $59.0 million from the prior year.

Consolidated on balance sheet purchases of property equipment and other assets totalled $372.0 million compared to $431.0 million last fiscal year. The table below presents balance sheet capital expenditures over the last two years by business segment.

($ in millions)	2005	2004
Food	$ 321.1	$ 384.9
Real estate	33.2	34.2
Investments and other	17.7	11.9
Total capital expenditures	$ 372.0	$ 431.0

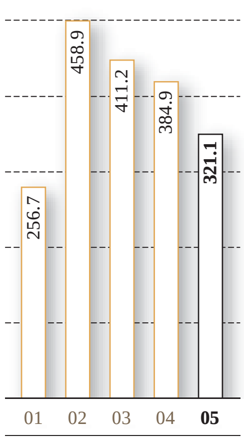
Food division company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords. Company-wide capital investment totalled $436 million in fiscal 2005, down from $553 million in the previous year. Sobeys remains committed to growing and improving its store network. During the fourth quarter, 13 corporate and franchised stores were opened compared to 36 corporate and franchised stores opened, replaced or acquired during the fourth quarter of last year. During the fourth quarter of fiscal 2004, Sobeys completed the acquisition of 15 stores, six cash and carry outlets and the wholesale business of Commisso's. An additional seven stores were expanded during the quarter. There were 16 stores rebannered in the current quarter compared to 20 for the same quarter last year.

On an annual basis, the food division opened 41 corporate and franchised stores this fiscal year compared to 76 corporate and franchise stores opened or replaced last year. An additional 19 stores were expanded in the year compared to 18 stores last year and 36 stores were rebannered this year compared to 90 last year.

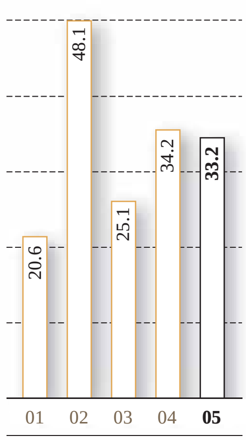
Net retail store square footage increased during the fourth quarter by 189,516 square feet (327,902 square feet opened, less 138,386 square feet closed). Net retail store additions for the year totalled 578,517 square feet (1,042,599 square feet opened less 464,082 square feet closed). At May 7, 2005, Sobeys' square footage totalled 25.0 million square feet, a 2.5 percent increase over the beginning of the fiscal year.

Sobeys continues to focus on growth through a combination of new store openings, renovations, replacements and enlargements and, where appropriate, through strategic acquisitions. The majority of total company-wide capital spending in fiscal 2006, which will approximate the average spending of the past number of years, will be allocated to the retail store network. During fiscal 2006, the Company plans to open, expand, or renovate approximately 70 corporate and franchised stores across Canada, increasing square footage by approximately four percent.

Food Capital Expenditures
($ in millions)



Real Estate Capital Expenditures
($ in millions)



During fiscal 2005 the Real estate division capital spending was primarily focused around the modernization and development of existing commercial properties such as conversion of the Downsview Mall in Lower Sackville, Nova Scotia from an enclosed shopping centre to a strip centre and the renovation of the Avalon Mall Food Court in St. John's, Newfoundland. New developments in Central Canada consisted of the Greenfield Park commercial development in Montreal, Quebec and the purchase of land for development in Oshawa, Ontario.

Capital spending by investments and other operations equalled $17.7 million in fiscal 2005 ($11.9 million in 2004) largely as a result of expenditures to acquire and modernize the four theatre locations (23 screens) purchased by Empire Theatres from Viacom Canada Inc. during the year.

Financing Activities

Financing activities during the fourth quarter generated $34.9 million in cash compared to $26.9 million of cash used in the comparable period of fiscal 2004. The Company incurred increased bank loans of $43.3 million in the fourth quarter primarily in connection with the purchase of common shares in Sobeys. In the fourth quarter of fiscal 2004, bank loans of $4.4 million were repaid.

For the fiscal year, financing activities increased cash by $7.0 million compared to $147.5 million of cash used in financing activities the prior year. Repayments of long-term debt were significantly higher last fiscal year, largely reflecting the repayment of a $100 million Series B MTN in the second quarter fiscal 2004. Also in fiscal 2005, the issuance of long-term debt totaling $39.9 million was $25.0 million higher than the long-term debt issued the prior year. Further, the Company increased its bank indebtedness by $78.6 million in fiscal 2005 compared to a $41.5 million increase in bank indebtedness last year.

The Company's share capital was comprised of the following at its fiscal year end, May 7, 2005:

Authorized	Number of Shares
Preferred shares, par value of $25 each, issuable in series as a class	2,846,000
2002 Preferred Shares, par value $25 each, issuable in series as a class	992,000,000
Non-Voting Class A shares, without par value	259,174,746
Class B common shares, without par value, voting	40,800,000
Issued	
Preferred shares, Series 2 cumulative, redeemable, rate of 75% of prime	331,900
Non-Voting Class A	31,150,585
Class B common	34,585,225

As of July 15, 2005 the Company had common shares outstanding of 65,756,064.

Dividend Payments

Dividends of $31.6 million ($0.48 per share) were paid in fiscal 2005 on Empire's common shares, up from the $26.3 million ($0.40 per share) paid in fiscal 2004. The dividend rate increased from $0.40 to $0.48 per share. There was no material change in the number of common shares outstanding year-over-year.

Debt Repayments

Empire's repaid long-term debt of $79.8 million during fiscal 2005 compared to $188.9 million in long-term debt repayments made in fiscal 2004. In fiscal 2004 Sobeys repaid a $100 million Series B MTN; refinancing with proceeds of a new MTN issued in February 2003.

Share Repurchases

During fiscal 2005, Empire repurchased 61,129 Non-Voting Class A shares ($1.6 million) under a Normal Course Issuer Bid announced on July 8, 2004. The Company issued 42,129 Non-Voting Class A shares ($0.9 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 liquidity requirements over the next year, which is expected to include capital expenditures, dividends and planned debt reduction.

Accounting Standards

CICA Section 1100, Generally Accepted Accounting Principles

During fiscal 2004, the Canadian Institute of Chartered Accountants ("CICA") introduced Handbook Section 1100 which discusses primary sources of GAAP, what to do when a matter is not dealt with explicitly in the sources of GAAP and identifies other sources to be consulted when a matter is not addressed within the sources of GAAP. Effective May 1, 2004, the Company adopted this handbook section prospectively without restatement. As a result the Company now recognizes depreciation of real estate buildings, rental expense and income from tenant leases on a straight-line basis. Adoption of the straight-line method of depreciation resulted in additional depreciation of $1.2 million during fiscal 2005.

Effective May 1, 2004, the Company also changed its policy to record real estate lease expense on a straight-line basis. Additional real estate lease expense of $2.7 million was recorded in fiscal 2005 as a result of this policy change. The Company also changed its policy to record income of a straight-line basis, resulting in additional straight-line real estate revenue of $2.2 million during fiscal 2005.

EIC-144, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor

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 sheet. 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 adopted EIC-144 in the current fiscal year, adjusting for it retroactively, with restatement of the comparative periods for the current and prior fiscal year.

The Company receives allowances from certain vendors, whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees, and other allowances. Due to the retroactive implementation of EIC-144, the timing of recognition of certain vendor allowances has changed, resulting in the Company recording a decrease in opening retained earnings for fiscal 2004 of $3.8 million (net of income taxes receivable of $3.4 million and minority interest of $2.1 million), and a decrease in inventory of $9.3 million. The implementation of EIC-144 did not result in a material change in the annual net earnings for fiscal 2005 or fiscal 2004 or in fiscal 2005 or fiscal 2004 quarterly net earnings.

CICA Section 3870, Stock-Based Compensation and Other Stock-Based Payments

At the beginning of fiscal 2003, the Company adopted, on a prospective basis, the CICA Handbook 3870 "Stock-Based Compensation and Other Stock-Based Payments". There was no effect on the Company upon implementation of this standard. In fiscal 2004, the Company adopted the Emerging Issues Committee Abstract 132 "Share Purchase Financing". This abstract requires share purchase loans that are not treated as assets on the balance sheet to be accounted for as stock-based compensation. There was no effect on the Company upon implementation of this abstract.

AcG-13, Hedging Relationships

Accounting guideline ("AcG") 13, "Hedging Relationships", came into effect during the current fiscal year. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. There was no effect on the Company of prospectively adopting this guideline.

CICA Section 3110, Asset Retirement Obligations

During the current fiscal year, CICA Handbook Section 3110, "Asset Retirement Obligations," was adopted. This section establishes standards for the recognition, measurement, and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal asset is capitalized as part of the related asset and depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation. There has been no impact on the Company from the retroactive adoption of this section.

Lease Accounting

On February 7, 2005, the Office of the Chief Accountant of the U.S. Securities and Exchange Commission ("SEC") issued a clarification in respect of accounting for various components of property leases and leasehold improvements on which U.S. and Canadian accounting governing bodies had been largely silent. As a result of the SEC clarification the Company has adopted the following two accounting policies: lease inducements received as a reimbursement for leasehold improvement (costs are amortized over the term of the lease) and lease expense related to a store fixturing period (is expensed during the fixturing period). A store fixturing period varies by store but is generally considered to be one month prior to the store opening. The Company has adopted this guideline retroactively with restatement.

The Company has reviewed its practices related to lease accounting and has determined that adjustments were required to align to the recent clarification of lease accounting guidelines. The first adjustment relates to lease allowances and incentives. Historically the Company classified lease allowances as a reduction of the related capital assets, which effectively reduced the depreciation expense over the expected life of the asset. The guideline clarification suggests these lease allowances should be recorded as a deferred credit and amortized as a reduction of lease expense over the term of the lease. The second adjustment relates to rent expense to be recorded during a store's fixturing period. The Company is often granted a fixturing period during which rent is not charged. The fixturing is generally considered to be one month prior to the store opening. Historically, when the Company was granted a fixturing period rent expense was not recorded as none was being charged and the store was not yet open. The clarification of the accounting guidance however requires that the fixturing period be considered a free-rent period that should be included in the term of the lease. Since lease expense must be recognized on a straight-line basis over the lease term an appropriate portion of the straight-line expense must be recorded for the fixturing period. The third adjustment relates to the capitalization of long term leases. An evaluation was completed in the fourth quarter of the current year and certain long term leases have been identified as capital leases. These changes have been accounted for on a retroactive basis with restatement resulting in the following net impact on the comparative statements for the period ended May 7, 2005:

- As at April 30, 2004 a reduction to retained earnings of $5.4 million.
- A reduction in net income for the 52 week period ended April 30, 2004 of $0.6 million from $173.1 million to $172.5 million, and a reduction in earnings per share from $2.63 to $2.62.
- As at April 30, 2004 an increase to property and equipment, future income taxes, long-term debt and long-term lease obligation of $10.1 million, $4.4 million, $10.3 million and $12.5 million respectively, and a decrease in minority interest of $2.9 million.

These lease accounting adjustments did not have any material impact on the Company's fiscal 2005 net earnings, historical or future revenues, cash flows or lease payments.

AcG-15, Consolidation of Variable Interest Entities

Effective for the fourth quarter ended May 7, 2005, the Company was required to implement Accounting Guideline 15 "Consolidation of Variable Interest Entities" ("AcG-15") issued by the CICA. AcG-15 requires the Company to consolidate certain entities that are deemed to be subject to control of the Company on a basis other than through ownership of a voting interest in the entity.

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

The Company has implemented AcG-15 on May 7, 2005 retroactively without restatement of prior periods. Entities that have been identified as meeting the characteristics of a VIE have been consolidated in the Company's results for the fourth quarter of fiscal 2005.

The Company has identified the following entities as VIEs:

Franchisees

The Company has identified 287 franchisees whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG-15. The results for these entities were consolidated with the results of the Company.

Warehouse and Distribution Agreement

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

The Company has consolidated the results of these independent franchisees and the entity providing warehouse and distribution services for the fourth quarter of fiscal 2005.

Impact of the Consolidation of VIEs
Balance Sheet as at May 7, 2005

($ in millions)	Consolidated Balance Sheet as at May 7, 2005 before AcG-15 Impact	Impact of the Implementation of AcG-15	Consolidated Balance Sheet as at May 7, 2005 after AcG-15 Impact
Assets			
Current			
Cash and cash equivalents	$ 247.6	$ 34.1	$ 281.7
Receivables	279.7	(21.9)	257.8
Income taxes receivable	14.8	0.2	15.0
Inventories	518.3	121.3	639.6
Prepaid expenses	48.1	4.2	52.3
	1,108.5	137.9	1,246.4
Investments, at cost (quoted market value $320.9)	270.8	–	270.8
Investments, at equity (realizable value $162.4)	72.9	–	72.9
Current assets and marketable investments	1,452.2	137.9	1,590.1
Property and equipment	2,395.3	34.5	2,429.8
Assets for realization	11.5	–	11.5
Other assets	321.7	(108.8)	212.9
Goodwill	684.9	–	684.9
	$ 4,865.6	$ 63.6	$ 4,929.2
Liabilities			
Current			
Bank indebtedness	$ 219.4	$ –	$ 219.4
Accounts payable and accrued liabilities	1,119.5	29.6	1,149.1
Future income taxes	52.4	–	52.4
Long-term debt due within one year	245.1	1.9	247.0
	1,636.4	31.5	1,667.9
Long-term debt	709.6	17.8	727.4
Long-term lease obligations	12.3	–	12.3
Deferred revenue	3.0	–	3.0
Employee future benefit obligations	94.5	–	94.5
Future income taxes	158.8	–	158.8
Minority interest	531.9	24.4	556.3
	3,146.5	73.7	3,220.2
Shareholders' Equity			
Capital stock	194.6	–	194.6
Retained earnings	1,525.6	(10.1)	1,515.5
Cumulative translation adjustment	(1.1)	–	(1.1)
	1,719.1	(10.1)	1,709.0
	$ 4,865.6	$ 63.6	$ 4,929.2

The impact of implementation of AcG-15 on the consolidated balance sheet of the Company can be explained as follows:

- Accounts receivable and long-term notes receivable due from the franchisees were eliminated upon consolidation. Cash, inventories, fixed assets, accounts payable and debt financing of the fixed assets have been consolidated.
- A charge of $9.5 million has been recorded to opening retained earnings (net of minority interest of $5.0 million) to reflect: a) the reduction of inventory values of the franchisees that include charges from the Company for distribution costs and vendor allowances that are not recognized by the Company until final sale to customers, and b) goodwill that is carried on the accounts of stores determined to be VIEs has been assessed as being impaired with no fair market value, and, as such, has been eliminated.
- Minority interest represents the equity in the VIEs held by the common shareholders.

Income Statement impact for 53 weeks ended, May 7, 2005.

($ in millions)	Consolidated Income Statement before AcG-15 Impact	Impact of the Implementation of AcG-15	Consolidated Income Statement after AcG-15 Impact
Revenue	$ 12,297.8	$ 137.4	$ 12,435.2
Operating expenses			
Cost of sales, selling and administrative expenses	11,655.2	135.8	11,791.0
Depreciation and amortization	199.7	1.8	201.5
	442.9	(0.2)	442.7
Investment income	21.0	–	21.0
Operating income	463.9	(0.2)	463.7
Interest expense			
Long-term debt	81.1	0.4	81.5
Short-term debt	5.1	0.1	5.2
	86.2	0.5	86.7
	377.7	(0.7)	377.0
Capital gain and other items	4.4	–	4.4
Earnings before income taxes and minority interest	382.1	(0.7)	381.4
Income taxes	131.3	(0.1)	131.2
Earnings before minority interest	250.8	(0.6)	250.2
Minority interest	63.8	(0.2)	63.6
Net earnings	$ 187.0	$ (0.4)	$ 186.6
Earnings per share basic and diluted	$ 2.84	$ (0.01)	$ 2.83
Basic and diluted weighted average number of common shares outstanding, in millions	65.7		65.7

The impact of implementation of AcG-15 on the consolidated income statement of the Company can be explained as follows:

Franchise retail sales are recorded and sales from the Company's distribution centres and cost of goods sold to the franchisee have been eliminated. The impact on all other financial statement line items including net earnings is immaterial.

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 percent of the greater of the accrued benefit plan obligation and the market value of the benefit plan assets are amortized on a straight-line basis over the average remaining service period of the active employees. Changes in financial market returns and interest rates could also result in changes in funding requirements for the Company's defined benefit pension plans.

The discount rate is based on current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation. The appropriate discount rate is determined on April 30th every year. For fiscal 2005, the discount rate used for calculation of pension and other benefit plan expense was 5.5 percent compared to 6.0 percent for fiscal 2004. The expected long-term rate of return on plan assets for pension benefit plans for each of fiscal 2005 and 2004 was 7.0 percent. The expected growth rate in health care costs is 10 percent for fiscal 2005. The cumulative growth rate to 2012 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 2005 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligations or benefit plan expenses.

	Pension Plans		Other Benefit Plans	
($ in millions)	Benefit Obligations	Benefit Cost(1)	Benefit Obligations	Benefit Cost(1)
Expected long term rate of return on plan assets		7.00%		
Impact of: 1% increase		$ (2.4)		
Impact of: 1% decrease		$ 2.4		
Discount rate	5.50%	5.50%	5.75%	5.75%
Impact of: 1% increase	$ (29.3)	$ 0.3	$ (15.7)	$ (0.8)
Impact of: 1% decrease	$ 32.9	$ (0.6)	$ 18.9	$ 0.9
Growth rate of health care costs(1)			10.00%	10.00%
Impact of: 1% increase			$ 15.9	$ 1.9
Impact of: 1% decrease			$ (13.0)	$ (1.5)

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

Goodwill and Long Lived Assets

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 judgement. 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 may result in cash payments or receipts.

Disclosure Controls

Based on an evaluation of the Company's disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded as of May 7, 2005 that these controls and procedures operated effectively.

Related Party Transactions

Sobeys continues to lease certain real property from Crombie and its affiliates at fair market values. 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 $56.8 million (2004 – $52.2 million). Sobeys was charged administrative expenses of $0.3 million (2004 – $0.4 million).

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 $4.4 million (2004 – $3.2 million).

Contingencies

During the fourth quarter, Lumsden Brothers Limited ("Lumsden"), a wholesaling subsidiary of Sobeys, received notice from Canada Revenue Agency (CRA) that it is proposing a reassessment related to Goods and Services Tax (GST) for fiscal years 1999 and 2000. The proposed reassessment relates to GST on sales of tobacco products to status Indians. CRA asserts that Lumsden was obliged to collect GST on the sales of these tobacco products to status Indians. The total tax, interest and penalties in the proposed reassessment are approximately $13 million. On June 17, 2005, Lumsden received a notice of reassessment from Canada Revenue Agency (CRA) related to the Goods and Services Tax (GST) matter outlined above. Lumsden has reviewed this matter, has received legal advice, and believes it was not required to collect GST. Lumsden is challenging this reassessment. Accordingly, Sobeys has not recorded in its financial statements any of the tax, interest or penalties set-out in the notice of reassessment.

The table below illustrates the Company's significant contractual obligations.

($ in millions)	2006	2007	2008	2009	2010	Onwards	Total
Long-term debt	$ 242.0	$ 38.9	$ 73.8	$ 75.4	$ 41.0	$ 480.1	$ 951.2
Capital leases	5.0	3.7	3.3	2.9	2.1	6.2	23.2
Operating leases	205.3	186.7	163.3	146.5	132.6	1,091.9	1,926.3
Total contractual obligations	$ 452.3	$ 229.3	$ 240.4	$ 224.8	$ 175.7	$ 1,578.2	$ 2,900.7

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

($ in millions)	2006	2007	2008	2009	2010	Onwards	Total
	$ 129.3	$ 115.1	$ 99.1	$ 88.0	$ 80.6	$ 708.2	$ 1,220.3

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

At May 7, 2005, Sobeys was contingently liable for letters of credit issued in the aggregate amount of $26.2 million (2004 – $22.0 million). Sobeys has also guaranteed certain bank loans contracted by franchisees. As at May 7, 2005, these loans amounted to approximately $2.4 million (2004 – $5.0 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys Capital Incorporated guaranteed to the landlord the performance by SERCA Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is 15 years with an aggregate obligation of $46.2 million. At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corporation, the lease of the Mississauga distribution centre was assigned to and assumed by a subsidiary of the purchaser and Sysco Corporation 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 May 7, 2005 Crombie was contingently liable for letter of credit issued in the aggregate amount of $17.7 million (2004 – $20.0 million).

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. The Company has operating and risk management strategies and insurance programs to help minimize these operating risks.

Competition

Empire's food retail 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 dependant on renewing expiring leases and finding new tenants to fill vacancies at market rental rates, hereby 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 2005, 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.

Financial

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 from time to time to manage the volatility of borrowing costs. Financial instruments are not used for speculative purposes.

Insurance

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

Human Resources

Empire is exposed to the risk of labour disruption in its operating companies. Subsequent to year-end, Sobeys successfully ratified a four-year collective agreement with employees located at its Edmonton, Alberta distribution centre. Labour disruptions pose a moderate operational risk, as Sobeys operates an integrated network of more than 20 distribution centres across the country. Sobeys have good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2006. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a steadfast commitment to maintaining fair and equitable work environments while building and sustaining a competitive cost structure for the long term.

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

Environmental, Health and Safety

Empire has an effective environmental, health and safety program in place including policies targeted at ensuring compliance with relevant legislation.

Employee awareness and training programs are conducted and environmental, health and safety risks are reviewed on a regular basis.

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

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

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

Food Safety

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

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

Technology

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

Real Estate

The Company is focused on obtaining the most attractive real estate locations for its retail grocery stores as well as for its commercial property operations and residential development operations, with direct Company ownership being an important, but not overriding, consideration.

Sobeys develops certain retail store locations on owned sites, however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and/or the ability to expand existing stores is therefore in large part contingent upon successful negotiation of operating leases with these developers and Sobeys ability to purchase high potential sites.

Legal, Taxation and Accounting

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

Similarly, income tax regulations and/or accounting pronouncements may be changed in ways which could negatively affect the Company.

Franchise Operations

The success of Sobeys is closely tied to the performance of its retail stores. Franchisees operate approximately 61 percent of these retail stores. Sobeys relies on the franchisees to successfully execute retail programs and strategies.

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

Foreign Operations

Empire does not directly carry out foreign operations, however, Sobeys and Crombie do have certain foreign operations. Sobeys' foreign operations are limited to a small produce brokerage business based in the State of Florida. Crombie, through its interest in Genstar, has certain residential land development in the California market but on a limited scale. These foreign operations are relatively small and are not considered material to Empire on a consolidated basis, as such, the Company does not have any material risks associated with foreign operations.

Foreign Currency

The Company conducts the majority of its operating business in Canadian dollars and its foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. U.S. dollar purchases of product by the food division represent approximately two percent of the Company's total annual purchases. Sobeys uses forward contracts to fix the exchange rate on some of its expected requirements for U.S. dollars for periods of not more than 30 days.

At May 7, 2005, Empire had common equity investments totalling $106.9 million denominated in U.S. dollar currency. To mitigate exposure to currency fluctuation, the Company has hedged a portion of its foreign currency exposure through the use of U.S. dollar denominated debt against the assets. At May 7, 2005 the ratio of U.S. dollar debt to the market value of U.S. equities was 57.1 percent.

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

The Company will continue to direct its energy and capital towards growing the long-term sustainable value of each 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 served is considered by management to be an additional source of strength. 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. Comments with respect to the outlook for each of the Company's divisions are noted below.

Food Division

Sobeys will continue to invest in infrastructure and productivity improvements in a manner consistent with its expressed intention to build a healthy and sustainable retail business and infrastructure for the long term. In fiscal 2006 Sobeys will advance its business process and information systems transformation plan for the Company by focusing on the significant opportunity to upgrade capabilities and improve efficiencies in Ontario. The system and processes that are being implemented have been developed over several years and are currently employed in the Food division's Atlantic Region. The Ontario initiative will simplify, standardize and streamline the "back shop", in support of the Company's food focused strategy. These efforts will leverage technology investments, improve efficiency and lower costs over the long term. The anticipated cost of the Ontario initiative is expected to approximate $0.20 to $0.25 per Sobeys share in fiscal 2006.

Real Estate Division

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 2006 as a result of the diligence of our leasing team and general economic conditions. Management looks forward to continuing its strong relationship with Sobeys and to pursuing attractive opportunities to jointly develop locations with Sobeys.

Investments and Other Operations

Growth in the Company's investment 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. Management remains committed to maintaining a portfolio of high quality, liquid common equity investments as a pool of capital to augment the growth in its core operating companies as attractive opportunities arise.

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 2006, an experienced operations team, and planned screen development, management looks forward to continued revenue growth in this business.

Non-GAAP Financial Measures

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

- Operating Income or EBIT is calculated as operating earnings plus interest expense, income taxes and minority interest.
- EBITDA is calculated as operating income plus depreciation and intangible amortization.
- EBITDAR is calculated as EBITDA plus gross rent expense.
- Operating earnings is calculated as net earnings before 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 asset value is management's estimate of the market value of the Company's assets less liabilities.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and capital lease obligations.
- Net debt is calculated as funded debt less cash and cash equivalents.
- Adjusted debt is funded debt plus the capitalized value of operating lease payments, which is calculated as six times net annual operating lease payments.
- Total capital is calculated as funded debt plus shareholders' equity.
- Company-wide capital investment includes on-balance sheet capital expenditures, all known capital investments by franchise affiliates and capital investments by third-party landlords.

Additional Information

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.

June 23, 2005
Stellarton, Nova Scotia