

focused on

development

During 2008, we expanded our team with experienced, talented individuals capable of executing effectively and dedicated to expanding our presence across the country. Our expertise in real estate, as well as our commitment to our disciplined investment criteria, will help to ensure that Empire prospers within the traditional economic cycles of the real estate industry.

Critical to our successful transition from an owner and manager of properties to a developer was the expansion of our team to include real estate development vice presidents in Atlantic Canada, Québec and British Columbia. These individuals bring integrity consistent with the Empire reputation and a commitment to excellence over the long term. Their innovative and contrarian thinking is imbedded in a wealth of property development talent and experience in regions that we believe are particularly attractive at this time. These teams, in addition to our existing real estate teams in Atlantic Canada and Ontario, will work closely with Sobeyes, including newly-acquired Thrifty Foods, to develop properties that expand the growth potential for the food retailing division and Crombie REIT.

A second step in our transition was the sale of 61 retail properties to Crombie REIT – 40 freestanding grocery stores carrying various Sobeyes banners and 21 strip plazas, 20 of which are also anchored by Sobeyes bannered



Frank C. Sobey (centre), President, ECL Properties Limited with Donald E. Clow, President, ECL Developments Limited, and Aaron Bryant, Director of Engineering, Crombie REIT.

grocery stores. The sale closed in April 2008, representing the second wave of real estate transactions between Empire and Crombie REIT. The first created Crombie REIT in March 2006 with the sale of 44 commercial properties owned by Empire.

A unique business model

As Empire's real estate development capacity matures, we will establish an expanding pipeline of projects that creates both certainty and pace of growth for Crombie REIT, which holds the right of first refusal on the sale of any Empire properties. In fact, the

sustainable competitive advantage inherent in Empire's real estate business today is the combination of strengths brought to the business by Sobeyes with its substantial in-house expertise in selecting commercial locations, Crombie REIT with its decades of management expertise, and the robust development expertise that we're gathering within our real estate division.



Working together are Pat Martin, Vice President Leasing, Crombie REIT; Steve Cleroux, Director Development, ECL Developments; Michael April, Vice President Real Estate Services, ECL Developments; and Joe Fiander, Vice President Real Estate and Engineering, Sobey's Atlantic.



Pipeline development strategy

Today our development pipeline comprises 14 properties – 1.9 million square feet in projects in Nova Scotia, New Brunswick, Québec and Ontario. Several are targeted for completion this year, others are multi-year projects. Our goal is to accelerate the growth of square feet available in our pipeline for sale each year to Crombie REIT. We intend to focus our investment on the locations with the greatest opportunity for profit. Guiding our investments is a set of criteria that will entrench discipline. Those criteria include:

- ▶ A satisfactory return on investment from every project;
- ▶ A beneficial competitive effect on Sobey's and Crombie REIT;
- ▶ Credit-worthy tenants with long-term leases that include contractual increases;
- ▶ Enhanced geographic diversification; and
- ▶ Competitive positioning in the local market through location or quality.

Our real estate division continues to hold an investment in commercial real estate through Crombie REIT in which Empire owns a 47.8 percent interest. Crombie REIT's operating and financial performance continued to be exemplary in fiscal 2008. We also hold an investment in residential real estate through Genstar in which Empire maintains a 35.7 percent ownership interest. Genstar's

performance remained robust in fiscal 2008 as it continued to benefit from the relative strength of the residential real estate market in Canada. The market has softened from the peak experienced in 2007 and we expect a continued slowdown of residential selling activity in 2009, but we remain confident that Genstar will continue to yield a solid return on our investment.

Outlook in challenging times

Volatile capital markets and a real estate slowdown in the United States are likely to affect the Canadian economy. Not only is credit tight, which has a significant impact on a capital intensive business like real estate, consumers and real estate buyers have become hesitant. We are convinced, however, that the strength of our relationships with Sobey's and Crombie REIT, combined with our strict discipline, will prove to be a sustainable competitive advantage as we continue to build shareholder value through the real estate and economic cycles.

Frank C. Sobey
President
ECL Properties Limited
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