Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 52 weeks ended May 1, 2010, compared to the 52 weeks ended May 2, 2009. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's divisions as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

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

This discussion and analysis should be read in conjunction with the audited annual consolidated financial statements of the Company and the accompanying notes for the 52 weeks ended May 1, 2010, compared to the 52 weeks ended May 2, 2009. The consolidated financial statements and accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire and its subsidiaries and variable interest entities ("VIEs") which the Company is required to consolidate. The information contained in this MD&A is current to June 25, 2010, unless otherwise noted.

Forward-Looking Information

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

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

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of June 25, 2010, and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

These forward looking statements include the following items:

- The Company's belief that it has sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due and its expectation that there will not be a material adverse impact on its business as a result of the global disruption in the market for third-party asset-backed commercial paper ("ABCP") liquidity, both of which could be impacted by the challenging economic environment;
- The Company's expectation that its operational and capital structure are sufficient to meet its ongoing business requirements in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other long-term obligations, all of which could be impacted by uncertainty in the economy;
- The Company's anticipation that its in place sources of liquidity will adequately meet its short-term and long-term financial requirements which may be impacted by uncertainty in the economy;
- The Company's expectation regarding the purchase of additional Series 2 Preferred Shares for cancellation by the end of calendar 2010 could be impacted by market conditions and availability of sellers;
- The Company's expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period the matter is resolved;
- Sobeys' expectations that the new distribution centre opened in Vaughan, Ontario will continue to reduce overall distribution costs;
- Sobeys' expectations that administrative and business rationalization activities as well as system process initiatives in prior years and upcoming quarters will reduce costs as expected and will provide, thereafter, annualized cost reductions, both of which could be impacted by the final scope and scale of these activities;
- The Company's expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- Sobeys' expectations of continued sales growth in fiscal 2011;
- Sobeys' expectation that there will be no material labour disruptions in fiscal 2011;
- The Company's expectations relating to the impact of the transition to International Financial Reporting Standards ("IFRS"), which is subject to ongoing assessment by the Company;
- The Company's expectations relating to the sale of 11 properties to Crombie REIT pursuant to a non-binding letter of intent between Sobeys and Crombie REIT announced on July 8, 2010;
- The Company's expectations relating to the public offering of units by Crombie REIT and the concurrent issue of limited partnership units of Crombie Limited Partnership to ECL Developments Limited, all of which is subject to conditions of closing, including regulatory approval; and
- The Company's expectation that existing environmental protection requirements will not have a material financial or operational effect on capital expenditures, earnings or competitive position of Empire during the current fiscal year or in future years.

Empire's Strategic Direction

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

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

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

Overview

Empire's key businesses include food retailing, real estate, and investments and other operations. Food retailing is carried out through wholly-owned Sobeys Inc. ("Sobeys"). The real estate business is carried out through a wholly-owned operating subsidiary ECL Properties Limited ("ECL"), which at fiscal year end on May 1, 2010 included a wholly-owned subsidiary ECL Developments Limited ("ECL Developments"), as well as a 40.7 percent ownership interest in Genstar Development Partnership and a 44.8 percent interest in Genstar Development II Partnership (collectively referred to as "Genstar") and a 47.4 percent ownership interest in Crombie REIT. Corporate investment activities and other operations includes wholly-owned ETL Canada Holdings Limited ("Empire Theatres"); Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta; and a 27.6 percent ownership position in Wajax Income Fund ("Wajax"), a leading Canadian distributor and service support provider of mobile equipment, industrial components and power systems.

With over $15 billion in annual revenue and approximately $6.2 billion in assets, Empire and its related companies employ over 90,000 people, including franchisees and affiliates.

Food Retailing

Sobeys, a wholly-owned subsidiary, conducts business through more than 1,300 retail stores (corporately owned and franchised) which operate in all 10 provinces across Canada.

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

During the year, Sobeys opened, replaced, expanded, redeveloped, acquired and/or converted the banners in 76 stores (2009 – 74). In fiscal 2010, Sobeys continued to execute a number of programs in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

One example of these initiatives is the opening of eight FreshCo discount stores in Ontario at the beginning of fiscal 2011. These FreshCo discount stores are designed to offer low prices without compromising service which would typically be experienced at discount grocery retailers. FreshCo shoppers enjoy fresh merchandise at low prices and an expanded selection of meats and produce, including high quality choices and seasonal, locally-produced products. During the fourth quarter of fiscal 2010, Sobeys incurred approximately $5.0 million in start up costs and fixed asset write-offs related to this initiative.

Real Estate

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

Investments and Other Operations

The third component of Empire's business is its investments and other operations, consisting primarily of a 27.6 percent ownership interest in Wajax, wholly-owned Empire Theatres and Kepec.

The market value of Empire's equity accounted investment in Wajax at the end of fiscal 2010 was $117.9 million (2009 – $71.3 million), representing an unrealized gain of $87.1 million (2009 – $40.3 million).

Other operations include Empire Theatres and Kepec. Empire Theatres is the second largest movie exhibitor in Canada which, as of May 1, 2010, owned 51 locations representing 380 screens.

FISCAL 2010 FINANCIAL HIGHLIGHTS

Highlights

- Revenue of $15.52 billion, up $501.1 million or 3.3 percent.
- Sobeys' same-store sales increased 1.9 percent.
- Earnings before capital gains (losses) and other items of $284.5 million, up $22.8 million or 8.7 percent.
- Net earnings of $301.9 million ($4.40 per share), a $37.2 million or 14.1 percent increase.
- Sobeys opened, acquired or replaced 41 corporate and franchised stores, opened its new automated Vaughan distribution centre, expanded 13 stores, rebannered/redeveloped 22 stores and closed 52 stores.
- Sobeys' free cash flow of $340.7 million versus $280.9 million last year.
- Funded debt to total capital of 29.3 percent, down 3.4 percentage points from the 32.7 percent recorded at the end of last fiscal year.
- Net debt to net total capital of 21.8 percent versus 28.6 percent at the end of fiscal 2009.
- Annual dividend per Non-Voting Class A share and Class B common share increased to $0.74 from $0.70 last year.

The consolidated financial overview provided below reports on the financial performance for fiscal 2010 relative to the last two fiscal years.

Summary Table of Consolidated Financial Results

	52 Weeks Ended					
($ in millions, except per share information)	**May 1, 2010**	**% of Revenue**	May 2, 2009[1]	% of Revenue	May 3, 2008[1]	% of Revenue
Revenue	**$ 15,516.2**	**100.00%**	$ 15,015.1	100.00%	$ 14,065.0	100.00%
Operating income	**479.7**	**3.09%**	466.2	3.10%	472.6	3.36%
Operating earnings	**284.5**	**1.83%**	261.7	1.74%	242.8	1.73%
Capital gains (losses) and other items, net of tax	**17.4**	**0.11%**	3.0	0.02%	73.0	0.52%
Net earnings	**$ 301.9**	**1.95%**	$ 264.7	1.76%	$ 315.8	2.25%
Basic earnings per share						
Operating earnings	**$ 4.16**		$ 3.98		$ 3.69	
Capital gains (losses) and other items, net of tax	**0.25**		0.05		1.11	
Net earnings	**$ 4.41**		$ 4.03		$ 4.80	
Basic weighted average number of shares outstanding (in millions)[2]	**68.4**		65.7		65.6	
Diluted earnings per share						
Operating earnings	**$ 4.15**		$ 3.97		$ 3.69	
Capital gains (losses) and other items, net of tax	**0.25**		0.05		1.11	
Net earnings	**$ 4.40**		$ 4.02		$ 4.80	
Diluted weighted average number of shares outstanding (in millions)[2]	**68.5**		65.8		65.7	
Dividends per share	**$ 0.74**		$ 0.70		$ 0.66	

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

(2) The increase in the weighted average number of shares outstanding reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 shares being issued.

OUTLOOK

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

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

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

Food Retailing Division

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

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2011 that will further improve store productivity. These key customer driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

Real Estate Division

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

With regard to the commercial real estate, subsequent to fiscal year end, our internal property development function was reorganized under Sobeys, with Sobeys acquiring 12 properties from ECL Properties. This reorganization will better align our real estate development function with the interest of Sobeys and help to streamline operations. As a result of this transfer, our commercial real estate operations consist largely of our 47.4 percent interest in Crombie REIT.

Empire's real estate business continues to benefit from Sobeys' substantial in-house expertise in selecting commercial locations and its development expertise gained from the recent transfer of ECL Development's team to Sobeys and from Crombie REIT which has decades of property management expertise.

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

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

Investments and Other Operations

With respect to Wajax, it is our view that Wajax continues to be well capitalized and, with a very capable management team, is favourably positioned to capitalize on new profitable growth opportunities.

SHAREHOLDER RETURN

The Company delivered a total shareholder return of 9.9 percent in fiscal 2010 as shown in the table below. The compound annual return on the Company's shares over the past five years has averaged 9.3 percent and over the past ten years has averaged 14.0 percent. This exceeded the compound annual return of the S&P/TSX Composite Index over the past five and ten years of 7.9 percent and 5.0 percent, respectively.

In fiscal 2010, the Company increased its dividend by 5.7 percent to $0.74 per share. On June 25, 2010, the Board approved a further dividend increase of 8.1 percent to $0.80 per share. This was the 15th consecutive year of dividend increases. Empire's dividends are declared quarterly at the discretion of the Board.

For the fiscal years ended:	**May 1, 2010**	May 2, 2009	May 3, 2008	May 5, 2007	May 6, 2006	5 Year CAGR(1)
Closing market price per share ($)	**52.98**	49.00	39.25	42.33	43.29	7.6%
Dividend paid ($ per share)	**0.74**	0.70	0.66	0.60	0.56	9.0%
Dividend yield on prior year closing price (%)	**1.5%**	1.8%	1.6%	1.4%	1.5%	
Increase (decrease) in share price (%)	**8.1%**	24.8%	(7.3%)	(2.2%)	18.1%	
Total annual shareholder return (%)(2)	**9.9%**	26.8%	(5.9%)	(0.8%)	19.8%	9.3%

(1) Compound annual growth rate.

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

NON-GAAP FINANCIAL MEASURES

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

Empire's definition of the non-GAAP terms are as follows:

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

The following tables reconcile Empire's funded debt and total capital to GAAP measures reported on the balance sheets as at May 1, 2010, May 2, 2009 and May 3, 2008.

($ in millions)	**May 1, 2010**	May 2, 2009(1)	May 3, 2008(1)
Bank indebtedness	**$ 17.8**	$ 45.9	$ 92.6
Long-term debt due within one year	**379.4**	133.0	60.4
Liabilities relating to assets held for sale	**–**	–	6.4
Long-term debt	**829.0**	1,124.0	1,414.1
Funded debt	**1,226.2**	1,302.9	1,573.5
Less: cash and cash equivalents	**(401.0)**	(231.6)	(191.4)
Net funded debt	**825.2**	1,071.3	1,382.1
Shareholders' equity	**2,952.4**	2,678.8	2,378.8
Net total capital	**$ 3,777.6**	$ 3,750.1	$ 3,760.9

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

($ in millions)	**May 1, 2010**	May 2, 2009(1)	May 3, 2008(1)
Funded debt	**1,226.2**	1,302.9	1,573.5
Total shareholders' equity	**2,952.4**	2,678.8	2,378.8
Total capital	**$ 4,178.6**	$ 3,981.7	$ 3,952.3

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

Management's Explanation of Fiscal 2010 Annual Consolidated Results

The following is a review of Empire's consolidated financial performance for the 52-week period ended May 1, 2010 compared to May 2, 2009.

Revenue and financial performance of each of the Company's businesses (food retailing, real estate and investments and other operations) are discussed in detail in the section entitled "Fiscal 2010 Financial Performance by Division" in this MD&A.

REVENUE

Consolidated revenue for fiscal 2010 was $15.52 billion, an increase of $501.1 million or 3.3 percent compared to fiscal 2009. Sobeys' sales increased by $478.2 million, real estate division revenue increased by $6.7 million and revenue from investments and other operations increased by $22.9 million over the prior fiscal year.

Please refer to the section entitled "Fiscal 2010 Financial Performance by Division" for an explanation of the change in revenue by division.

OPERATING INCOME

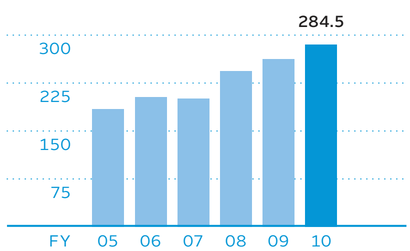
For the full fiscal year, Empire recorded operating income of $479.7 million, an increase of $13.5 million or 2.9 percent from the prior year.

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

- Sobeys' operating income contribution to Empire in fiscal 2010 totalled $425.3 million, an increase of $25.8 million or 6.5 percent from the $399.5 million recorded last year.
- Residential property operating income contribution in fiscal 2010 was $31.0 million, a decrease of $2.6 million from the $33.6 million recorded last year.
- Commercial property (including Crombie REIT) operating income in fiscal 2010 was $19.8 million compared to $22.3 million last year, a decrease of $2.5 million. Crombie REIT contributed $18.6 million to operating income in fiscal 2010 versus a $19.8 million contribution last year.
- Investments and other operations (net of corporate expenses) contributed operating income of $3.6 million in fiscal 2010 compared to $10.8 million last fiscal year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax was $9.2 million versus $18.5 million last year. Operating income from other operations (net of corporate expenses) amounted to $(5.6) million compared to $(7.7) million last year.

Please refer to the section entitled "Fiscal 2010 Financial Performance by Division" for an explanation of the change in operating income for each division.

Consolidated Operating Earnings
($ in millions)



INTEREST EXPENSE

For the 52 weeks ended May 1, 2010, consolidated interest expense equalled $72.5 million versus $80.6 million in the prior year. The $8.1 million decrease in fiscal 2010 interest expense compared to last fiscal year is primarily due to lower funded debt levels which are principally related to free cash flow generation by Sobeys and Empire's $135 million equity issuance which was completed on April 24, 2009. This equity issue did reduce Empire's funded debt levels prior to the end of fiscal 2009; however, it had little impact on reducing interest expense in fiscal 2009 due to the issuance occurring only eight days prior to fiscal year-end.

Consolidated funded debt was $1,226.2 million at the end of fiscal 2010 compared to $1,302.9 million at the end of fiscal 2009, a $76.7 million or 5.9 percent decrease.

INCOME TAXES

The effective tax rate for the year ended May 1, 2010 of 24.4 percent differs from the combined statutory rate of 30.9 percent due primarily to the settlement negotiated with CRA relating to the tax treatment of gains realized on the fiscal 2001 sale of shares in Hannaford Bros. Co. Income tax expense was reduced in the first quarter by $17.0 as a result of this settlement. Excluding the impact of capital gains (losses) and other items, the effective income tax rate for fiscal 2010 was 28.8 percent versus 30.0 percent last year.

During fiscal 2010, there was a $4.7 million reduction in the net future tax liabilities and income tax expense as a result of the substantive enactment of Ontario's 2009 budget announcement in November 2009. The budget provides for incremental reductions in the Ontario corporate income tax rate from the current rate of 14 percent to 10 percent between July 1, 2010 and July 1, 2013. In the absence of this substantively enacted incremental rate reduction, Empire's effective tax rate for fiscal 2010 (excluding the impact of capital gains (losses) and other items) would have been 29.9 percent.

EARNINGS BEFORE CAPITAL GAINS (LOSSES) AND OTHER ITEMS

For the 52 weeks ended May 1, 2010, earnings before capital gains (losses) and other items amounted to $284.5 million ($4.15 per share) compared to $261.7 million ($3.97 per share) in the prior fiscal year. The $22.8 million or 8.7 percent increase is the result of the $13.5 million increase in operating income, the $8.1 million decrease in interest expense, and the $2.7 million decrease in minority interest, partially offset by a $1.5 million increase in income taxes.

The table below presents Empire's segmented earnings before capital gains (losses) and items by division for the 52 weeks ended May 1, 2010, compared to the 52 weeks ended May 2, 2009.

	52 Weeks Ended			
($ in millions)	**May 1, 2010**	May 2, 2009[1]	($) Change	(%) Change
Food retailing[2]	**$ 256.1**	$ 227.9	$ 28.2	12.4%
Real estate	**34.4**	36.7	(2.3)	(6.3%)
Investments & other operations	**(6.0)**	(2.9)	(3.1)	(106.9%)
Consolidated	**$ 284.5**	$ 261.7	$ 22.8	8.7%

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

(2) Adjusted for the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

CAPITAL GAINS (LOSSES) AND OTHER ITEMS

In fiscal 2010, the Company recorded capital gains (losses) and other items, net of tax, of $17.4 million compared to $3.0 million last year. Capital gains (losses) and other items, net of tax, in fiscal 2010 was primarily the result of a $17.0 million tax settlement related to the fiscal 2001 sale of shares in Hannaford Bros. Co. and a $2.9 million positive fair value adjustment on ABCP, partially offset by Empire recording $3.1 million for its equity share of an interest rate swap agreement which was settled by Crombie REIT during Empire's fiscal year. Capital gains (losses) and other items, net of tax, in fiscal 2009 were largely the result of the sale of non-core properties for gains of $6.9 million, net of tax, offset by an increase in the provision on ABCP equal to $3.1 million, net of tax.

The table below presents capital gains (losses) and other items, net of tax, for the 52 weeks ended May 1, 2010, compared to the 52 weeks ended May 2, 2009.

	52 Weeks Ended		
($ in millions)	**May 1, 2010**	May 2, 2009	($) Change
Equity share of Crombie REIT's other expenses	**$ (3.1)**	$ –	$ (3.1)
Increase (decrease) in fair value of Canadian third-party asset-backed commercial paper	**2.9**	(3.1)	6.0
Gain (loss) on sale of investments	**(0.2)**	–	(0.2)
Gain (loss) on sale of properties	**0.1**	6.9	(6.8)
Foreign exchange gains (losses)	**0.7**	(0.8)	1.5
Tax recovery related to sale of shares in Hannaford Bros. Co.	**17.0**	–	17.0
	$ 17.4	$ 3.0	$ 14.4

NET EARNINGS

Net earnings for the 52 weeks ended May 1, 2010 totalled $301.9 million ($4.40 per share) compared to $264.7 million ($4.02 per share) recorded last fiscal year, an increase of $37.2 million or 14.1 percent. The increase in net earnings in fiscal 2010 over the prior year reflects the increase in earnings before capital gains (losses) and other items of $22.8 million and the increase in capital gains (losses) and other items of $14.4 million, as previously discussed.

	52 Weeks Ended			
($ in millions)	**May 1, 2010**	May 2, 2009[1]	($) Change	(%) Change
Food retailing[2]	**$ 259.0**	$ 224.8	$ 34.2	15.2%
Real estate	**31.3**	42.6	(11.3)	(26.5%)
Investments & other operations	**11.6**	(2.7)	14.3	529.6%
Consolidated	**$ 301.9**	$ 264.7	$ 37.2	14.1%

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

(2) Adjusted for the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

Fiscal 2010 Financial Performance by Division

FOOD RETAILING

Highlights

- Fiscal 2010 sales growth of $478.2 million or 3.2 percent and same-store sales growth of 1.9 percent.
- Operating cash flow of $682.1 million versus $635.0 million in fiscal 2009.
- Total capital expenditures equalled $341.4 million in fiscal 2010, down $12.7 million from fiscal 2009.
- Free cash flow of $340.7 million versus $280.9 million in fiscal 2009.
- Opened, acquired or replaced 41 corporate and franchised stores, opened a new automated distribution centre in Vaughan, Ontario, expanded 13 stores, rebannered/redeveloped 22 stores and closed 52 stores.
- Funded debt to total capital improved to 27.1 percent at the end of fiscal 2010 compared to the 31.3 percent reported at the end of fiscal 2009.

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

	52 Weeks Ended		
	May 1, 2010	May 2, 2009[1]	May 3, 2008[1]
Sales growth	**3.2%**	7.2%	5.6%
Same-store sales growth	**1.9%**	5.2%	2.8%
Return on equity	**11.9%**	11.3%	10.0%
Funded debt to total capital	**27.1%**	31.3%	35.6%
Funded debt to EBITDA	**1.2x**	1.3x	1.7x
Property and equipment purchases (in millions)	**$ 341**	$ 354	$ 479

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

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

	52 Weeks Ended		Year-over-Year	
($ in millions)	**May 1, 2010**	May 2, 2009[1]	($) Change	(%) Change
Sales	**$ 15,243.0**	$ 14,764.8	$ 478.2	3.2%
Operating income[2]	**425.3**	399.5	25.8	6.5%
Capital gains (losses) and other items, net of tax	**2.9**	(3.1)	6.0	193.5%
Net earnings[2]	**259.0**	224.8	$ 34.2	15.2%

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

(2) Adjusted for the impact of depreciation and amortization related to the privatization of Sobeys in June 2007.

Sales

In fiscal 2010, Sobeys achieved sales of $15.2 billion, an increase of $478.2 million or 3.2 percent over fiscal 2009. During the fiscal year, same-store sales increased by 1.9 percent. The growth in sales continues to be a direct result of the increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved store level execution and product and service innovation.

Sobeys expects sales growth to continue in fiscal 2011 as a result of continued capital investment in its retail store network and offering, merchandising, pricing and operational execution improvements across the country.

Total store square footage increased by 2.2 percent in fiscal 2010 as a result of the opening of 41 new or replacement stores and the expansion of 13 stores. There were 52 stores closed in fiscal 2010.

Business Process and Information Systems Transformation and Rationalization Costs

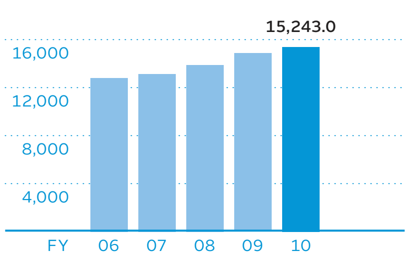
Sobeys continues to make significant progress in the implementation of system-wide business process optimization and rationalization initiatives that are designed to reduce complexity and improve processes and efficiency throughout Sobeys. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration. They are an important enabler of further initiatives such as the new distribution facility in Ontario.

Sobeys completed this implementation in Ontario during the third quarter of fiscal 2007. A business process and information system transformation plan, similar to that deployed in Ontario, began in Western Canada during fiscal 2007 and was completed during the second quarter of fiscal 2008.

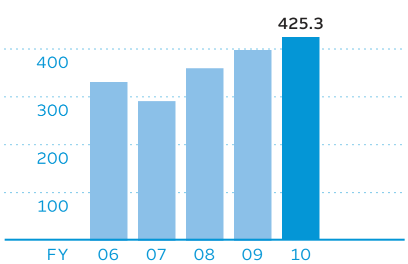
The business process and information systems implementation began in Québec in the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 52-week period ended May 1, 2010, $11.3 million (2009 – $nil) of pre-tax costs were incurred related to these initiatives.

The new distribution centre, in Vaughan, Ontario, utilizes automation technology and equipment which has significantly increased Sobeys' warehouse and distribution capacity and is expected to reduce overall distribution costs while improving service to its store network and customers. During fiscal 2010, Sobeys recognized $nil (2009 – $6.9 million) in severance costs related to the development of this automated facility. Amounts in fiscal 2009 also included the severance costs associated with a resulting rationalization of certain administrative functions in Ontario. The new distribution centre is expected to provide annual distribution savings in excess of these costs incurred in fiscal 2009. In the second quarter of fiscal 2010, the distribution centre became fully operational and continues to meet expectations.

Food Retailing Revenue
($ in millions)



Food Retailing Operating Income
($ in millions)



During fiscal 2008 and 2009, Sobeys also performed a rationalization of administrative functions in its National and other regional departments. No additional rationalization costs were incurred in fiscal 2010 (2009 – $3.8 million).

Operating Income

For the 52 weeks ended May 1, 2010, Sobeys reported operating income of $430.8 million, a $26.6 million or 6.6 percent increase from the prior fiscal year. Operating income margin for fiscal 2010 equalled 2.83 percent compared to 2.74 percent in fiscal 2009. Included in Sobeys' operating income in fiscal 2010 was approximately $5.0 million in costs related to the launch of the FreshCo discount banner and the rebannering of eight stores in Mississauga and Brampton, Ontario.

After adjusting for the impact of the depreciation and amortization related to the privatization, Sobeys' operating income contribution to Empire for fiscal 2010 was $425.3 million (2009 – $399.5 million). Sobeys' operating income margin for fiscal 2010, after adjusting for the above items, equalled 2.79 percent compared to 2.71 percent in fiscal 2009.

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 reported net earnings of $262.8 million in fiscal 2010 compared to $228.0 million last year, a $34.8 million or 15.3 percent increase. The earnings increase is largely a result of the $26.6 million increase in operating income and an increase in capital gains (losses) and other items, net of tax, of $6.0 million. Sobeys reported operating earnings, which excludes the changes to the fair value of ABCP, of $259.9 million, an increase of $28.8 million or 12.5 percent from the $231.1 million recorded in fiscal 2009. For additional discussion of ABCP, please see the section titled "Other Matters" in this MD&A.

After adjusting for the impact of the depreciation and amortization related to the privatization and the related tax impact, the food retailing division contributed net earnings of $259.0 million to Empire for fiscal 2010, an increase of $34.2 million or 15.2 percent over the $224.8 million recorded in fiscal 2009.

REAL ESTATE

Highlights

- Increased ownership interest in Genstar Development Partnership from 35.7 percent to 40.7 percent and in Genstar Development II Partnership from 43.4 percent to 44.8 percent.
- Acquired an additional $30.0 million in Crombie REIT Class B units along with $10.0 million in Crombie REIT convertible unsecured subordinated debentures.
- Completed the sale of eight properties to Crombie REIT.
- Operating income from Crombie REIT of $18.6 million versus $19.8 million last year.
- Market price of Crombie REIT units increased approximately 69 percent in fiscal 2010.
- Operating income from Genstar of $31.0 million compared to $33.6 million in fiscal 2009.

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

	52 Weeks Ended		
	May 1, 2010	May 2, 2009	May 3, 2008
Funds from operations ($ in millions)	**$ 35.7**	$ 38.5	$ 64.3
Return on equity	**12.1%**	17.8%	17.7%
Funded debt to total capital	**15.0%**	25.6%	22.4%
Development pipeline (in millions of square feet)	**1.7**	1.7	1.2

The table below presents revenue, operating income, capital gains (losses) and other items, net of tax, net earnings and funds from operations for the real estate division's commercial operations and residential operations.

	52 Weeks Ended			
($ in millions)	May 1, 2010	May 2, 2009	($) Change	(%) Change
Revenue				
Residential	$ 63.3	$ 54.6	$ 8.7	15.9%
Commercial	17.3	19.3	(2.0)	(10.4%)
	$ 80.6	$ 73.9	$ 6.7	9.1%
Operating income				
Residential	$ 31.0	$ 33.6	$ (2.6)	(7.7%)
Crombie REIT[(1)]	18.6	19.8	(1.2)	(6.1%)
Commercial	1.2	2.5	(1.3)	(52.0%)
	$ 50.8	$ 55.9	$ (5.1)	(9.1%)
Net earnings				
Residential operating earnings	$ 21.8	$ 23.3	$ (1.5)	(6.4%)
Commercial operating earnings	12.6	13.4	(0.8)	(6.0%)
Capital gains (losses), net of tax	(3.1)	5.9	(9.0)	(152.5%)
	$ 31.3	$ 42.6	$ (11.3)	(26.5%)
Funds from operations				
Residential	$ 21.8	$ 23.2	$ (1.4)	(6.0%)
Commercial	13.9	15.3	(1.4)	(9.2%)
	$ 35.7	$ 38.5	$ (2.8)	(7.3%)

(1) Equity accounted earnings in Crombie REIT during the period.

Revenue

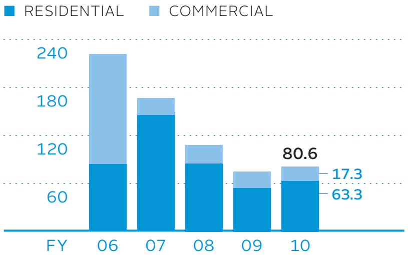
Real estate division revenues amounted to $80.6 million in fiscal 2010 compared to $73.9 million in the prior year. The $6.7 million increase in revenue from the real estate division was the result of higher revenue from residential operations.

Revenue from residential operations was $63.3 million in fiscal 2010 compared to $54.6 million last year, an $8.7 million or 15.9 percent increase. Commercial property revenues for fiscal 2010 equalled $17.3 million, a decrease of $2.0 million or 10.4 percent compared to revenues of $19.3 million reported last year primarily as a result of the sale of properties that occurred part-way through fiscal 2009.

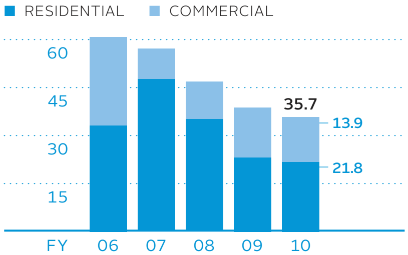
Operating Income

For the 52 weeks ended May 1, 2010, real estate division operating income was $50.8 million versus $55.9 million in the prior fiscal year. The $5.1 million decrease in real estate division operating income was largely the result of a $2.6 million decline in residential operating income due primarily to lower margin on residential lot sales and a $1.2 million decline in operating income contribution from Empire's investment in Crombie REIT. Other commercial operating income decreased by $1.3 million in fiscal 2010 compared to the prior fiscal year primarily as a result of the properties sales mentioned above.

Real Estate Revenue[(1)]
($ in millions)



Real Estate Funds from Operations[(1)]
($ in millions)



(1) Fiscal 2005-2008 have been restated to exclude Sobey Leased Properties which was sold on April 22, 2008.

Capital Gains (Losses) and Other Items

Capital gains (losses) and other items, net of tax, for the real estate division totalled $(3.1) million in fiscal 2010 (2009 – $5.9 million). The capital losses recorded in the current fiscal year are related to Empire's equity share of an interest rate swap agreement settled by Crombie REIT which it deemed was no longer an effective hedge. The capital gains recorded in fiscal 2009 related primarily to the sale of several non-core properties.

Net Earnings

In fiscal 2010, real estate division net earnings contribution to Empire was $31.3 million compared to $42.6 million last year, an $11.3 million decrease. The earnings decline is largely the result of a $5.1 million decrease in operating income and a $9.0 million decrease in net capital gains (losses) as mentioned, partially offset by a $2.6 million reduction in income tax expense.

Funds from Operations

Funds from real estate operations in fiscal 2010 of $35.7 million decreased $2.8 million compared to $38.5 million in the prior fiscal year primarily as a result of a decline in operating earnings.

INVESTMENTS AND OTHER OPERATIONS

Highlights

- Empire Theatres' revenue in fiscal 2010 increased by 17.4 percent compared to fiscal 2009.
- Maintained a 27.6 percent interest in Wajax which contributed $9.2 million in equity earnings in fiscal 2010.
- Capital gains (losses) and other items, net of tax, of $17.6 million in fiscal 2010.

Investment Value

At the end of fiscal 2010, Empire's total investments, including its investment in Genstar U.S. investments and in Crombie REIT, carried a market value of $487.7 million (May 2, 2009 – $255.5 million) on a cost base of $67.7 million (May 2, 2009 – $19.9 million), resulting in an unrealized gain of $420.0 million (2009 – $235.6 million).

At fiscal year end, May 1, 2010, Empire's investments including equity accounted investments in Crombie REIT and Genstar U.S., consisted of:

	May 1, 2010			May 2, 2009		
($ in millions)	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT units	**$ 341.3**	**$ 8.4**	**$ 332.9**	$ 175.6	$ (19.7)	$ 195.3
Investment in Wajax	**117.9**	**30.8**	**87.1**	71.3	31.0	40.3
Investment in Genstar U.S.(1)	**17.6**	**17.6**	**–**	7.5	7.5	–
Other investments(1)(2)	**10.9**	**10.9**	**–**	1.1	1.1	–
	$ 487.7	**$ 67.7**	**$ 420.0**	$ 255.5	$ 19.9	$ 235.6

(1) Assumes market value equals book value.

(2) Fiscal 2010 other investments includes a $10.7 million Crombie REIT convertible unsecured subordinated debenture.

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

	52 Weeks Ended		
($ in millions)	**May 1, 2010**	May 2, 2009	($) Change
Revenue	**$ 202.2**	$ 179.3	$ 22.9
Operating income			
Wajax	**9.2**	18.5	(9.3)
Other operations, net of corporate expenses	**(5.6)**	(7.7)	2.1
Total operating income	**3.6**	10.8	(7.2)
Operating earnings	**(6.0)**	(2.9)	(3.1)
Capital gains (losses) and other items, net of tax[1]	**17.6**	0.2	17.4
Net earnings	**$ 11.6**	$ (2.7)	$ 14.3

(1) Fiscal 2010 capital gains (losses) and other items, net of tax, includes $17.0 million reflecting the settlement of a CRA tax reassessment relating to the fiscal 2001 sale of Hannaford Bros. Co. shares.

Revenue

Investments and other operations' revenue, primarily generated by Empire Theatres, equalled $202.2 million for fiscal 2010 versus $179.3 million last year, an increase of $22.9 million or 12.8 percent. This largely reflects higher box office attendance versus last year as a result of strong product offering (including increased 3D content) and the fact that Empire Theatres had an additional week in fiscal 2010.

Operating Income

Investment and other operations (net of corporate expenses) contributed operating income of $3.6 million compared to $10.8 million in the prior fiscal year. The decrease is primarily the result of lower equity accounted earnings generated from the Company's 27.6 percent interest in Wajax. The $9.3 million reduction in Wajax equity accounted earnings ($9.2 million versus $18.5 million in fiscal 2009) was due to decreased market demand in all three of Wajax's operating segments as a result of the weakened economy.

Operating income from other operations (net of corporate expenses) improved from $(7.7) million to $(5.6) million in fiscal 2010. The improvement is largely related to the stronger performance by Empire Theatres in the recent fiscal year as a result of the strong box office attendance and the additional week of results as discussed.

Capital Gains (Losses) and Other Items

Capital gains (losses) and other items, net of tax, in fiscal 2010 amounted to $17.6 million compared to $0.2 million last year. Fiscal 2010 capital gains (losses) and other items, net of tax, includes $17.0 million reflecting the settlement of a CRA tax reassessment relating to the fiscal 2001 sale of Hannaford Bros. Co. shares.

Net Earnings

Investments and other operations (net of corporate expenses) contributed $11.6 million to Empire's consolidated fiscal 2010 net earnings compared to a $(2.7) million net earnings contribution last year. The increase is primarily the result of the settlement of the CRA tax reassessment related to the fiscal 2001 sale of the shares in Hannaford Bros. Co. as discussed.

Quarterly Results of Operations

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

Results by Quarter

	Fiscal 2010				Fiscal 2009(1)			
($ in millions, except per share information)	Q4 (13 Weeks) May 1, 2010	Q3 (13 Weeks) Jan. 30, 2010	Q2 (13 Weeks) Oct. 31, 2009	Q1 (13 Weeks) Aug. 1, 2009	Q4 (13 Weeks) May 2, 2009	Q3 (13 Weeks) Jan. 31, 2009	Q2 (13 Weeks) Nov. 1, 2008	Q1 (13 Weeks) Aug. 2, 2008
Revenue	$ 3,836.8	$ 3,836.2	$ 3,874.7	$ 3,968.5	$ 3,709.0	$ 3,800.0	$ 3,727.9	$ 3,778.2
Operating income	118.5	110.3	120.7	130.2	109.3	115.3	113.3	128.3
Operating earnings(2)	71.9	68.3	72.1	72.2	62.9	64.8	63.1	70.9
Capital gains (losses) and other items, net of tax	1.6	–	(1.7)	17.5	(0.8)	(3.5)	2.5	4.8
Net earnings	$ 73.5	$ 68.3	$ 70.4	$ 89.7	$ 62.1	$ 61.3	$ 65.6	$ 75.7
Per share information, basic								
Operating earnings	$ 1.05	$ 1.00	$ 1.06	$ 1.05	$ 0.96	$ 0.99	$ 0.96	$ 1.08
Capital gains (losses) and other items, net of tax	0.02	–	(0.03)	0.26	(0.01)	(0.05)	0.04	0.07
Net earnings	$ 1.07	$ 1.00	$ 1.03	$ 1.31	$ 0.95	$ 0.94	$ 1.00	$ 1.15
Basic weighted average number of shares outstanding (in millions)(3)	68.4	68.4	68.4	68.4	65.9	65.6	65.6	65.6
Per share information, diluted								
Operating earnings	$ 1.05	$ 0.99	$ 1.06	$ 1.05	$ 0.95	$ 0.98	$ 0.96	$ 1.08
Capital gains (losses) and other items, net of tax	0.02	–	(0.03)	0.26	(0.01)	(0.05)	0.04	0.07
Net earnings	$ 1.07	$ 0.99	$ 1.03	$ 1.31	$ 0.94	$ 0.93	$ 1.00	$ 1.15
Diluted weighted average number of shares outstanding (in millions)(3)	68.5	68.5	68.5	68.5	66.0	65.7	65.7	65.7

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

(2) Operating earnings is earnings before capital gains (losses) and other items.

(3) The increase in the weighted average number of shares outstanding reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 shares being issued.

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

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

Summary Table of Consolidated Financial Results for the Fourth Quarter

($ in millions, except per share information)	13 Weeks Ended May 1, 2010	% of Revenue	13 Weeks Ended May 2, 2009[1]	% of Revenue
Revenue	$ 3,836.8	100.00%	$ 3,709.0	100.00%
Operating income	118.5	3.09	109.3	2.95
Operating earnings	71.9	1.87	62.9	1.69
Capital gains (losses) and other items, net of tax	1.6	0.04	(0.8)	(0.02)
Net earnings	$ 73.5	1.92%	$ 62.1	1.67%
Basic earnings per share				
Operating earnings	$ 1.05		$ 0.96	
Capital gains (losses) and other items, net of tax	0.02		(0.01)	
Net earnings	$ 1.07		$ 0.95	
Basic weighted average number of shares outstanding (in millions)[2]	68.4		65.9	
Diluted earnings per share				
Operating earnings	$ 1.05		$ 0.95	
Capital gains (losses) and other items, net of tax	0.02		(0.01)	
Net earnings	$ 1.07		$ 0.94	
Diluted weighted average number of shares outstanding (in millions)[2]	68.5		66.0	
Dividends per share	$ 0.185		$ 0.175	

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

(2) The increase in the weighted average number of shares outstanding reflects an equity issue completed on April 24, 2009 which resulted in a total of 2,713,000 shares being issued.

The following is a review of financial performance for the 13 weeks ended May 1, 2010 compared to the 13 weeks ended May 2, 2009.

Revenue

Revenue for the fourth quarter of fiscal 2010 was $3.84 billion compared to $3.71 billion last year, a $127.8 million or 3.4 percent increase. Revenues for the food retailing division increased by $103.5 million or 2.8 percent compared to the fourth quarter of fiscal 2009. Sobeys' same-store sales increased 0.5 percent over the same quarter last year. The growth in Sobeys' sales was a direct result of increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation. Also, during the fourth quarter of fiscal 2010, Sobeys experienced retail food price deflation, which partially offset the growth associated with the above initiatives.

Real estate revenue in the fourth quarter was $32.8 million, an increase of $21.1 million from the $11.7 million recorded in the fourth quarter last year. Residential property revenue increased by $20.9 million while commercial property revenue increased by $0.2 million from the fourth quarter last year. The increase in residential property revenue was largely due to higher lot sales activity in Western Canada relative to the same quarter last year.

Revenue from investments and other operations in the fourth quarter of fiscal 2010 equalled $52.3 million, an increase of $5.2 million or 11.0 percent over the fourth quarter last year. This is primarily related to stronger box office attendance and increased 3D product exhibited by Empire Theatres.

Operating Income

Consolidated operating income in the fourth quarter was $118.5 million, an increase of $9.2 million or 8.4 percent from the $109.3 million recorded in the fourth quarter last year.

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

- Sobeys' operating income contribution to Empire in the fourth quarter totalled $98.4 million, a decrease of $1.9 million or 1.9 percent from the $100.3 million recorded in the fourth quarter last year. Included in Sobeys' operating income for the fourth quarter was approximately $5.0 million in costs related to the launch of the FreshCo discount banner and the rebannering of eight stores in Mississauga and Brampton, Ontario.
- Residential property operating income contribution in the fourth quarter was $14.8 million, an increase of $11.0 million from the $3.8 million recorded in the fourth quarter last year as a result of higher residential lot sales activity.
- Commercial property (including Crombie REIT) operating income for the quarter was $4.0 million compared to $4.9 million in the fourth quarter last fiscal year, a decrease of $0.9 million. Crombie REIT contributed $4.4 million to operating income in the fourth quarter versus a $4.9 million contribution in the fourth quarter last year.
- Investments and other operations (net of corporate expenses) contributed operating income of $1.3 million in the fourth quarter compared to $0.3 million in the fourth quarter last year. Equity accounted earnings generated from the Company's 27.6 percent interest in Wajax amounted to $2.3 million in the fourth quarter versus $2.6 million in the fourth quarter last year. Operating income from other operations (net of corporate expenses) amounted to $(1.0) million compared to $(2.3) million in the fourth quarter last year.

Interest Expense

Interest expense in the fourth quarter amounted to $18.2 million, a decrease of $0.6 million or 3.2 percent from the $18.8 million recorded in the same quarter last year. The decrease in interest expense is primarily due to the lower funded debt for the reasons previously discussed.

Income Taxes

The effective income tax rate for the fourth quarter (excluding the impact of capital gains (losses) and other items) was 28.0 percent versus 29.6 percent in the fourth quarter last year. Statutory enacted future income tax rate reductions have lowered the overall effective income tax rate compared to the fourth quarter of 2009.

Earnings before Capital Gains (Losses) and Other Items

For the 13 weeks ended May 1, 2010, Empire recorded earnings before capital gains (losses) and other items of $71.9 million ($1.05 per share) versus $62.9 million ($0.95 per share) last year, a $9.0 million or 14.3 percent increase. The increase in earnings before capital gains (losses) and other items is the result of a $9.2 million increase in operating income, a $0.6 million reduction in interest expense and a decrease in minority interest of $0.5 million, partially offset by an increase in income taxes of $1.3 million.

Capital Gains (Losses) and Other Items

The Company reported capital gains (losses) and other items, net of tax, of $1.6 million in the fourth quarter compared to capital gains (losses) and other items, net of tax, of $(0.8) million last year. Capital gains (losses) and other items in the fourth quarter of fiscal 2010 primarily relate to a positive fair value adjustment to ABCP. Capital gains (losses) and other items in the fourth quarter of last year primarily relate to a loss on the sale of non-core property.

Net Earnings

Consolidated net earnings in the fourth quarter of fiscal 2010 equalled $73.5 million ($1.07 per share) compared to $62.1 million ($0.94 per share) in the fourth quarter last year, an increase of $11.4 million or 18.4 percent. The increase in net earnings is due to the $9.0 million increase in earnings before capital losses and other items and an increase in capital gains (losses) and other items, net of tax, of $2.4 million.

Consolidated Financial Condition

CAPITAL STRUCTURE AND KEY FINANCIAL CONDITION MEASURES

The Company's financial condition improved in fiscal 2010 as evidenced by the capital structure and key financial condition measures in the table below.

($ in millions, except per share and ratio calculations)	**May 1, 2010**	May 2, 2009[1]	May 3, 2008[1]
Shareholders' equity	**$ 2,952.4**	$ 2,678.8	$ 2,378.8
Book value per share	**$ 43.07**	$ 39.07	$ 36.08
Bank indebtedness	**$ 17.8**	$ 45.9	$ 92.6
Long-term debt, including current portion[2]	**$ 1,208.4**	$ 1,257.0	$ 1,480.9
Funded debt to total capital	**29.3%**	32.7%	39.8%
Net debt to net total capital ratio	**21.8%**	28.6%	36.7%
Debt to EBITDA[3]	**1.50x**	1.62x	2.02x
EBITDA to interest expense[3]	**11.30x**	9.95x	7.35x
Total assets	**$ 6,248.3**	$ 5,891.1	$ 5,729.4

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

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

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

SHAREHOLDERS' EQUITY

Book value per common share was $43.07 at May 1, 2010 compared to $39.07 at May 2, 2009 and $36.08 at May 3, 2008. The increase in book value in the current fiscal year reflects the Company's earnings growth as discussed.

The Company's share capital on May 1, 2010 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	$ in Millions
Preferred shares, par value $25 each, issuable in series			
series 2, cumulative, redeemable, rate of 75% prime	2,682,100	168,000	$ 4.2
2002 preferred shares par value $25 each, issuable in series	992,000,000	–	
Non-Voting Class A shares, without par value	259,107,435	34,197,498	316.2
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			328.0
Employees' Share Purchase Plan			(2.9)
			$ 325.1

Total Non-Voting Class A and Class B common shares outstanding at May 1, 2010 equalled 68,458,261, unchanged from the previous fiscal year-end. There were 34,197,498 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 1, 2010.

On April 24, 2009, the Company closed a bought-deal public offering of Non-Voting Class A shares at a price of $49.75 per share. The underwriters elected to exercise their over-allotment option in full, resulting in a total of 2,713,000 shares being issued for net proceeds of $129.1 million.

During fiscal 2010, 162,399 options (2009 – 189,967 options) were issued under Empire's long-term incentive plan. The options issued in fiscal 2010 allow the holder to purchase Non-Voting Class A shares at $46.04 per share (2009 – $40.26 per share). Empire had 433,209 options outstanding at May 1, 2010 compared to 282,733 options outstanding at May 2, 2009. There were no options exercised during fiscal 2010 or fiscal 2009. During fiscal 2010, 11,923 options (2009 – nil) were forfeited.

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

	May 1, 2010		May 2, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**282,733**	**$ 41.47**	92,766	$ 43.96
Granted	**162,399**	**46.04**	189,967	40.26
Forfeited	**(11,923)**	**40.26**	–	–
Balance, end of year	**433,209**	**$ 43.22**	282,733	$ 41.47
Stock options exercisable, end of year	**90,894**		23,192	

The 433,209 stock options outstanding as at the fiscal year ended May 1, 2010 represents 0.6 percent (2009 – 0.4 percent) of the outstanding Non-Voting Class A shares and Class B common shares.

During fiscal 2010, there were no Series 2 preferred shares purchased for cancellation compared to 90,200 Series 2 preferred shares purchased for $2.3 million in fiscal 2009. The Company plans to purchase on a best efforts basis for cancellation additional Series 2 preferred shares by the end of calendar 2010.

As at June 25, 2010, the Company had total Non-Voting Class A and Class B common shares outstanding of 34,197,498 and 34,260,763, respectively, as well as 433,209 options to acquire in aggregate 433,209 Non-Voting Class A shares.

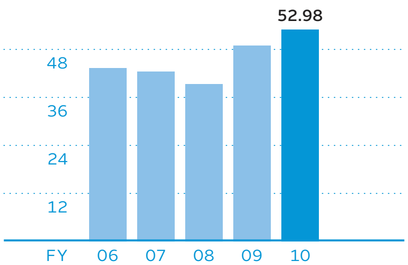
Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $50.7 million in fiscal 2010 ($0.74 per share) versus $46.1 million ($0.70 per share) in fiscal 2009.

LIABILITIES

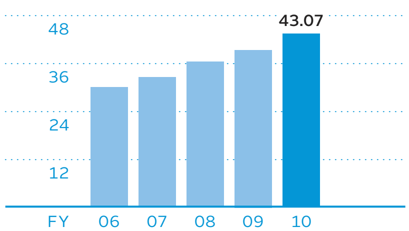
Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Longer-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinancing risk. At the end of fiscal 2010, the Company's total long-term debt (including the current portion long-term debt) was $1,208.4 million (2009 – $1,257.0 million), representing 98.5 percent (2009 – 96.5 percent) of Empire's total funded debt of $1,226.2 million (2009 – $1,302.9 million).

Consolidated funded debt decreased by $76.7 million from the $1,302.9 million reported at the end of fiscal 2009. The decrease in funded debt over the end of the previous fiscal year is primarily the result the free cash flow generated by Sobeys being used to reduce its funded debt. The ratio of funded debt to total capital improved to 29.3 percent from 32.7 percent at the end of fiscal 2009. The 3.4 percentage point improvement is the result of lower funded debt levels and higher equity levels due to growth in retained earnings.

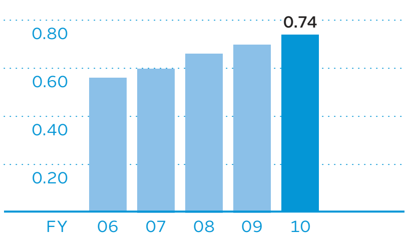
Share Price
($ per share)



Book Value Per Share
($ per share)



Common Dividends Per Share
($ per share)



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

Long-term debt (including current portion) ($ in millions)	May 1, 2010	May 2, 2009	May 3, 2008
Food retailing	$ 858.7	$ 954.0	$ 1,010.2
Real estate	35.3	39.6	50.1
Investments & other operations	314.4	263.4	420.6
Total	$ 1,208.4	$ 1,257.0	$ 1,480.9

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 9 and 10 to the Company's annual audited consolidated financials statements for fiscal 2010 as detailed on page 84 and 85 of the Company's 2010 Annual Report.

On July 23, 2008, DBRS changed its trend on Sobeys' credit rating from BBB (low) with a negative trend to BBB (low) with a stable trend. On July 30, 2008, Standard & Poor's ("S&P") changed its trend on Sobeys' credit rating from BB+ with a negative trend to BB+ with a stable trend. On June 26, 2009, DBRS confirmed its long-term debt rating of Sobeys at BBB (low) and revised the trend to positive from stable. On July 6, 2009, S&P confirmed its long-term debt rating of Sobeys at BB+ and revised the trend to positive from stable.

During the second quarter of fiscal 2010, on September 14, 2009, DBRS upgraded Sobeys' credit rating to BBB with a stable trend. During the third quarter of fiscal 2010, on January 12, 2010, S&P upgraded its credit rating on Sobeys from BB+ with a positive trend to BBB- with a stable trend.

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

Empire's EBITDA to interest expense ratio in fiscal 2010 was 11.3 times, an improvement from the 10.0 times recorded in fiscal 2009. The increase in the EBITDA to interest expense ratio compared to fiscal 2009 was the result of the decline in interest expense related to the reduction of funded debt and an increase in trailing 12-month EBITDA to $819.4 million from $802.3 million a year earlier.

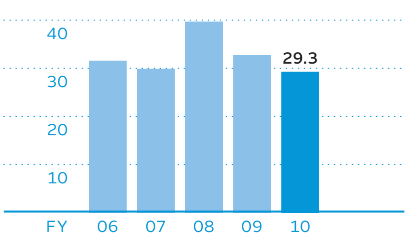
Empire and its subsidiaries have provided covenants to lenders in support of various financing facilities. All covenants were complied with during fiscal 2010 and for fiscal 2009.

FINANCIAL INSTRUMENTS

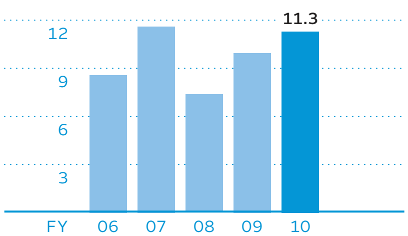
As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity price risk. From time to time, Empire or one of its subsidiaries will use a financial instrument for the purpose of mitigating its exposure to one or more types of financial risk. Empire and its subsidiaries do not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated net earnings for the 52 weeks ended May 1, 2010 or fiscal 2009.

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

Funded Debt to Capital
(%)



EBITDA to Interest Expense
(times)



In-Place Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At May 1, 2010, there were four interest rate hedges in place with a fair value of $(15.6) million. Sensitivity analysis has been prepared to determine the impact of a change in the underlying forward rate curves on the fair values reported as of May 1, 2010. A parallel shift up/(down) in the underlying forward rate curve of 0.25 percent would impact in the fair value of the swaps by plus or minus $1.3 million and impact other comprehensive income by plus or minus $0.9 million.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 Canadian Dollar ("CAD")/United States Dollar ("USD") to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of May 1, 2010, Sobeys recognized a liability of $0.2 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus or minus $1.2 million and would impact other comprehensive income by plus or minus $0.9 million.

To mitigate the risk of changes in the market price of electricity, Sobeys uses financial derivative swap contracts with varying maturities as hedges against the rising costs. As of May 1, 2010, Sobeys recognized a liability of $1.3 million relating to these instruments. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable energy prices would impact the fair value of the swaps by plus or minus $0.1 million.

In October 2009, Sobeys entered into heating oil swaps to mitigate the price volatility of a portion of its future diesel fuel purchases. As diesel fuel derivative contracts are not actively traded on any organized futures exchange, there are limited opportunities to hedge diesel fuel prices directly; however, Sobeys uses heating oil derivatives due to the historically high correlations between changes in diesel fuel prices and heating oil prices. As of May 1, 2010, the contracts had expired and no asset or liability was recorded.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as "Held for Trading" on the balance sheet and recorded at fair value. The estimated fair values of the financial instruments as at May 1, 2010 were based on relevant market prices and information available at the reporting date. The Company determines fair value of each financial instrument by reference to external and third-party quoted bid, ask, and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 1 and 21 to the Company's annual audited financial statements for fiscal 2010 as detailed on pages 74 and 93 of the Company's 2010 Annual Report.

Liquidity and Capital Resources

Empire's liquidity remained strong at May 1, 2010 as a result of the following sources:

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

At May 1, 2010, consolidated cash and cash equivalents were $401.0 million versus $231.6 million at the prior fiscal year end on May 2, 2009.

At the end of fiscal 2010, on a non-consolidated basis, Empire maintained an authorized bank line for operating, general and corporate purposes of $650.0 million, of which approximately $298.5 million or 45.9 percent was utilized. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by approximately $840.1 million at May 1, 2010.

Empire's non-consolidated credit facility of $650.0 million matured on June 8, 2010. Subsequent to fiscal year end, on June 4, 2010, Empire renewed its credit facility for an additional three-year term, to expire on June 30, 2013. The size of the facility was reduced to $450.0 million from $650.0 million reflecting both strong cash generation and lower debt levels.

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

The following table highlights major cash flow components for the 13 and 52 weeks ended May 1, 2010 compared to the 13 and 52 weeks ended May 2, 2009.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 1, 2010**	May 2, 2009(1)	**May 1, 2010**	May 2, 2009(1)
Earnings for common shareholders	**$ 73.5**	$ 62.1	**$ 301.8**	$ 264.6
Items not affecting cash	**72.8**	103.0	**358.0**	352.9
	146.3	165.1	**659.8**	617.5
Net change in non-cash working capital	**174.5**	40.1	**124.3**	50.5
Cash flows from operating activities	**320.8**	205.2	**784.1**	668.0
Cash flows used in investing activities	**(92.8)**	(139.9)	**(466.1)**	(413.9)
Cash flows used in financing activities	**(83.5)**	(58.0)	**(148.6)**	(213.9)
Increase in cash and cash equivalents	**$ 144.5**	$ 7.3	**$ 169.4**	$ 40.2

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

OPERATING ACTIVITIES

Fourth quarter cash flows from operating activities equalled $320.8 million compared to $205.2 million in the comparable period last year. The increase of $115.6 million is due to an increase in the net change in non-cash working capital of $134.4 million and an increase in earnings available for common shareholders of $11.4 million, partially offset by a decrease in items not affecting cash of $30.2 million.

In fiscal 2010, cash flows from operating activities equalled $784.1 million compared to $668.0 million in the prior year. The increase of $116.1 million is attributed to an increase in the net change in non-cash working capital of $73.8 million, an increase in net earnings available for common shareholders of $37.2 million and an increase in items not affecting cash of $5.1 million.

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

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

			13 Weeks Ended	
($ in millions)	**May 1, 2010**	Jan. 30, 2010	May 1, 2010 Increase (Decrease) in Cash Flows	May 2, 2009(1) Increase (Decrease) in Cash Flows
Receivables	**$ 336.9**	$ 291.0	$ (45.9)	$ (19.4)
Inventories	**880.3**	924.0	43.7	17.9
Prepaid expenses	**70.1**	51.1	(19.0)	(31.5)
Accounts payable and accrued liabilities	**(1,621.6)**	(1,463.6)	158.0	95.4
Income taxes receivable (payable)	**(19.5)**	(7.3)	12.2	(17.1)
Impact of reclassifications on working capital(2)	**(25.5)**	–	25.5	(5.2)
Total	**$ (379.3)**	$ (204.8)	$ 174.5	$ 40.1

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

(2) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new goodwill and intangibles policy further explained in Note 1 to the financial statements.

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

($ in millions)	May 1, 2010	May 2, 2009[1]	52 Weeks Ended May 1, 2010 Increase (Decrease) in Cash Flows
Receivables	**$ 336.9**	$ 308.9	$ (28.0)
Inventories	**880.3**	842.8	(37.5)
Prepaid expenses	**70.1**	63.9	(6.2)
Accounts payable and accrued liabilities	**(1,621.6)**	(1,487.1)	134.5
Income taxes receivable (payable)	**(19.5)**	4.9	24.4
Impact of reclassifications on working capital[2]	**(37.1)**	–	37.1
Total	**$ (390.9)**	$ (266.6)	$ 124.3

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

(2) Reclassifications primarily relate to business acquisitions and rationalization costs and the adoption of the new goodwill and intangibles policy further explained in Note 1 to the financial statements.

The net change in non-cash working capital of $174.5 million in the fourth quarter was largely due to a $158.0 million increase in payables, a $43.7 million decrease in inventories, a $12.2 million increase in income taxes payable and the impact of reclassifications on working capital of $25.5 million, partially offset by an increase in receivables of $45.9 million and an increase in prepaid expenses of $19.0 million. The increased accounts payable and accrued liabilities largely reflects Sobeys' focus on managing working capital as evidenced by increased levels of cash at fiscal year end. The decrease in inventories compared to the third quarter reflects the seasonality typically experienced by Sobeys over these quarters. The increase in receivables of $45.9 million at Sobeys is primarily as a result of rent receivables being recorded prior to the end of the period compared to the third quarter.

Year-over-year non-cash working capital increased $124.3 million. This is primarily the result of a $134.5 million increase in accounts payable and accrued liabilities, an increase in income taxes payable of $24.4 million, a $37.1 million impact of reclassifications on working capital partially offset by a $37.5 million increase in inventories, a $28.0 million increase in receivables and a $6.2 million increase in prepaid expenses compared to the prior year. The increase in receivables, inventories and related accounts payable and accrued liabilities is necessary to support Sobeys' higher sales volumes due to the increased amount of square footage in its expanded store network.

INVESTING ACTIVITIES

Cash used in investing activities of $92.8 million in the fourth quarter is down from cash used in investing activities of $139.9 million in the fourth quarter last fiscal year. The decrease in cash used in investing activities of $47.1 million was largely the result of an increase in proceeds on disposal of property and equipment of $52.4 million primarily from the sale of eight properties to Crombie REIT in the fourth quarter of fiscal 2010.

For the 52 weeks ended May 1, 2010, cash used in investing activities of $466.1 million was $52.2 million higher than last fiscal year. The increase in cash used in investing activities was largely the result of an increase in the cash used for investments in fiscal 2010 of $48.6 million, an increase of $33.4 million in property and equipment purchases and an increase cash used in loans and other receivables of $29.4 million, partially offset by an increase in proceeds on disposal of property and equipment of $59.1 million.

Consolidated purchases of property and equipment totalled $128.0 million in the fourth quarter of fiscal 2010 compared to $112.0 million in the fourth quarter last year. Consolidated purchases of property and equipment totalled $434.0 million in fiscal 2010 compared to $400.6 million in the same period last year.

Proceeds on disposal of property and equipment increased $52.4 million from the fourth quarter last year to $65.6 million in the fourth quarter of fiscal 2010. Proceeds on disposal of property and equipment in the fourth quarter of fiscal 2010 were largely related to the sale of eight properties to Crombie REIT for cash proceeds of $56.7 million as discussed in the "Related-Party Transactions" section of this MD&A. Proceeds on disposal of property and equipment for the fourth quarter of last year of $13.2 million were largely related to the sale of several non-core properties.

For the fiscal 2010, proceeds on disposal of property and equipment equalled $137.1 million compared to $78.0 million last year, a $59.1 million increase. Proceeds on disposal of property and equipment in fiscal 2010 are largely related to:

- The sale leaseback of a distribution centre located in Milton, Ontario to a third party. Proceeds on the sale were $51.0 million resulting in a pre-tax gain of $5.6 million which will be amortized over the life of the long-term lease agreement which has been entered into for the use of this facility; and
- The sale of eight properties to Crombie REIT as discussed.

Proceeds on disposal of property and equipment last year of $78.0 million were primarily related to the sale of several non-core properties.

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

Included in cash used in investing activities for fiscal 2010 is an additional investment of $30.0 million in Crombie REIT Class B units along with an investment of $10.0 million in Crombie REIT convertible unsecured subordinated debentures as discussed in the “Related-Party Transactions” section of this MD&A.

The table below outlines the number of stores Sobeys invested in during the fourth quarter of fiscal 2010 compared to the same quarter of fiscal 2009, as well as for the 52 weeks ended May 1, 2010 compared to the 52 weeks ended May 2, 2009.

Sobeys’ Corporate and Franchised Store Construction Activity

	13 Weeks Ended		52 Weeks Ended	
# of Stores	**May 1, 2010**	May 2, 2009	**May 1, 2010**	May 2, 2009
Opened/Acquired/Relocated	**11**	13	**41**	47
Expanded	**4**	3	**13**	11
Rebannered/Redeveloped	**14**	2	**22**	16
Closed	**17**	20	**52**	52

The following table shows Sobeys’ square footage changes for the 13 and 52 weeks ended May 1, 2010 by type.

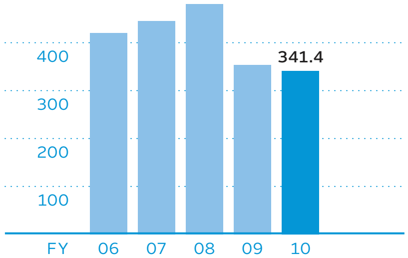
Sobeys’ Square Footage Changes

Square Feet (in thousands)	**May 1, 2010 vs. Jan. 30, 2010**	May 1, 2010 vs. May 2, 2009
Opened	**222**	856
Relocated	**63**	115
Acquired	**3**	8
Expanded	**38**	140
Closed	**(193)**	(554)
Net Change	**133**	565

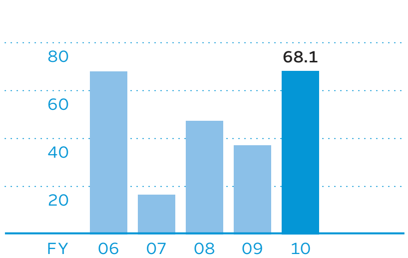
At May 1, 2010, Sobeys’ square footage totalled 28.1 million square feet, a 2.2 percent increase over the 27.5 million square feet in operation at the end of the fourth quarter of last year.

Capital expenditures for the food retailing division in fiscal 2010 equalled $341.4 million compared to $354.1 million in fiscal 2009. Capital expenditures for the real estate division equalled $68.1 million in fiscal 2010 ($36.9 million in fiscal 2009) as a result of ongoing property developments and land additions. Capital spending by investments and other operations equalled $24.5 million in fiscal 2010 ($9.6 million in fiscal 2009).

Food Retailing Capital Expenditures
($ in millions)



Real Estate Capital Expenditures
($ in millions)



FINANCING ACTIVITIES

Financing activities during the fourth quarter of fiscal 2010 used $83.5 million of cash compared to $58.0 million of cash used in the same quarter last year. The increase of $25.5 million in cash flows used in financing activities when compared to the same quarter last year is primarily the result of an increase in cash flow used to repay bank indebtedness.

Financing activities during the 52 weeks ended May 1, 2010 used $148.6 million of cash compared to $213.9 million of cash used in financing activities in the same period last year. The decrease in cash flows used in financing activities of $65.3 million in the 52 weeks ended May 1, 2010 when compared to the same period last year is primarily the result of: (i) a decrease in long-term debt repayment of $149.1 million; (ii) an increase in issuance of long-term debt of $30.9 million; and (iii) a decrease in cash flow used to reduce bank indebtedness of $18.6 million; partially offset by a decrease in cash flow from the issue of Non-Voting Class A shares of $129.1 million.

As previously discussed, on April 24, 2009 Empire issued 2,713,000 Non-Voting Class A shares at a price of $49.75 per share. The total net proceeds raised of $129.1 million (gross proceeds of $135 million) were used to repay a portion of Empire's non-consolidated bank facility.

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

GUARANTEES AND COMMITMENTS

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

Gross Obligations Excluding Lease Income

($ in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt	$ 364.2	$ 23.8	$ 218.0	$ 32.6	$ 25.1	$ 494.5	$ 1,158.2
Capital leases	17.6	14.1	9.7	6.4	5.1	6.2	59.1
Operating leases							
Third-parties	281.3	268.0	250.5	232.9	216.7	1,432.7	2,682.1
Related-parties	45.2	37.2	37.2	38.1	38.2	440.2	636.1
Total operating leases	326.5	305.2	287.7	271.0	254.9	1,872.9	3,318.2
Total contractual obligations	$ 708.3	$ 343.1	$ 515.4	$ 310.0	$ 285.1	$ 2,373.6	$ 4,535.5

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

($ in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Third-parties	$ 187.9	$ 180.0	$ 170.8	$ 161.9	$ 153.3	$ 1,013.0	$ 1,866.9
Related-parties	45.2	37.2	37.2	38.1	38.2	440.2	636.1
	$ 233.1	$ 217.2	$ 208.0	$ 200.0	$ 191.5	$ 1,453.2	$ 2,503.0

Franchise Affiliates

Sobeys has guaranteed certain bank loans contracted by franchise affiliates. As at May 1, 2010, these loans amounted to $0.2 million (2009 – $0.5 million).

During fiscal 2008, Sobeys entered into an additional guarantee contract. Under the terms of the guarantee, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 million or 9.9 percent (2009 – $6.0 million or 9.9 percent) of the unfulfilled obligation balance. The terms of the guarantee contract are reviewed annually each August. As at May 1, 2010 the amount of the guarantee was $7.0 million (May 2, 2009 – $6.0 million).

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

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of $4.0 million or 10.0 percent (2009 – $4.0 million or 10.0 percent) of the authorized and outstanding obligation annually.

Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favorable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys has determined that there were no material implications with respect to the consolidation of VIEs. As of May 1, 2010, the amount of the guarantee was $4.0 million (2009 – $4.0 million).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2011 is approximately $22.1 million. The guaranteed lease commitments over the next five fiscal years are:

($ in millions)	Third Parties
2011	$ 22.1
2012	16.2
2013	10.2
2014	3.3
2015	0.4
Thereafter	1.2

Other
At May 1, 2010, the Company was contingently liable for letters of credit issued in the aggregate amount of $50.1 million (2009 – $55.3 million).

Upon entering into the lease of its Mississauga distribution centre in March 2000, Sobeys Capital Incorporated, a direct subsidiary of Sobeys, guaranteed to the landlord the performance by Serca Foodservice Inc., of all of its obligations under the lease. The remaining term of the lease is 10 years with an aggregate obligation of $31.6 million (2009 – $34.6 million). At the time of the sale of assets of Serca Foodservice Inc. to SYSCO Corp., the lease of the Mississauga distribution centre was assigned to and assumed by a subsidiary of the purchaser and SYSCO Corp. agreed to indemnify and hold Sobeys Capital Incorporated harmless from any liability it may incur pursuant to its guarantee.

FREE CASH FLOW

Free cash flow (see Non-GAAP measures section) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 and 52 week periods ended May 1, 2010 and May 2, 2009.

	13 Weeks Ended		52 Weeks Ended	
($ in millions)	**May 1, 2010**	May 2, 2009(1)	**May 1, 2010**	May 2, 2009(1)
Cash flow from operating activities	**$ 320.8**	$ 205.2	**$ 784.1**	$ 668.0
Less: Property and equipment purchases	**128.0**	112.0	**434.0**	400.6
Free cash flow	**$ 192.8**	$ 93.2	**$ 350.1**	$ 267.4

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

Free cash flow generation in the fourth quarter of fiscal 2010 was $192.8 million compared to free cash flow of $93.2 million in the fourth quarter last year. The $99.6 million increase in free cash flow from the fourth quarter last fiscal year was due to a $115.6 million increase in cash flow from operations, partially offset by a $16.0 million increase in property and equipment purchases.

For the 52 weeks ended May 1, 2010, free cash flow equalled $350.1 million, an increase of $82.7 million over the $267.4 million in free cash flow recorded for the same period last year. The improvement is due to a $116.1 million increase in cash flow from operating activities, partially offset by an increase of $33.4 million in property and equipment purchases.

Controls and Accounting Policies

CHANGES IN ACCOUNTING POLICIES

Accounting standards adopted during fiscal 2010:

Goodwill and Intangible Assets
In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "*Goodwill and Intangible Assets*", which replaced existing Section 3062, "*Goodwill and Other Intangible Assets*", and Section 3450, "*Research and Development*". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of adopting Section 3064, Emerging Issues Committee Abstract 27, "*Revenues and Expenditures During the Pre-operating Period*", no longer applies. The Company has implemented these requirements, in compliance with transitional provisions, effective for the first quarter of fiscal 2010 with a retroactive restatement of the comparative periods. The initial impact under the new standard as at May 2, 2009 was a decrease to prepaid expenses of $6.9 million, a decrease to other assets of $62.4 million, a decrease in property and equipment of $33.7 million, an increase to intangibles of $96.1 million, a decrease of future tax liabilities of $2.2 million as well as a reduction of retained earnings of $4.7 million. For the 52 weeks ended May 2, 2009, cost of sales, selling and administration expenses decreased $9.4 million, depreciation and amortization expense increased $11.3 million, and income taxes decreased $0.7 million.

Financial Instruments – Disclosures
In June 2009, the CICA issued amendments to the existing Section 3862, "*Financial Instruments – Disclosures*", to more closely align the section with those required under IFRS. The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks. These amendments apply to annual financial statements with fiscal years ending after September 30, 2009. The Company has implemented these enhanced disclosure requirements in compliance with transitional provisions. The new disclosures did not have a material impact.

Future Changes in Accounting Policies:

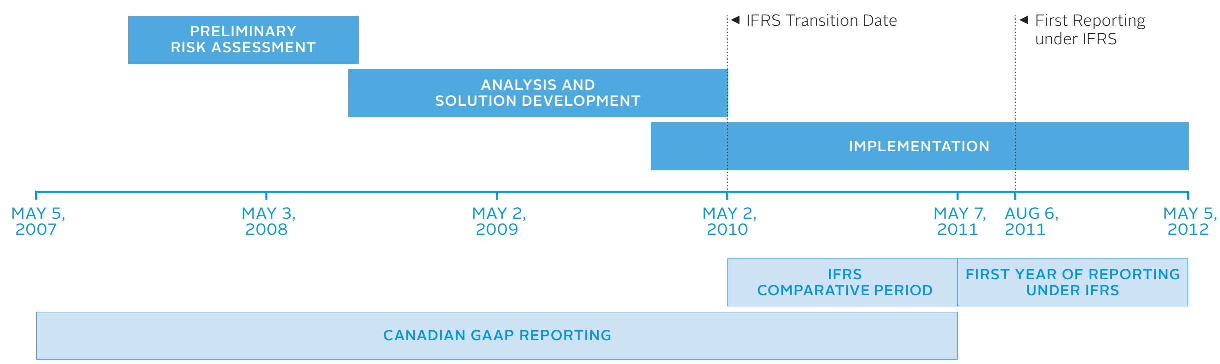
Business Combinations, Consolidated Financial Statements and Non-Controlling Interests
In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's IFRS 3, "*Business Combinations*". Section 1582, "*Business Combinations*", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling Interests*", replace Section 1600, "*Consolidated Financial Statements*", and establish standards for the preparation of consolidated financial statements and for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt, all three standards must be adopted concurrently. The Company is currently evaluating the impact of these new standards.

Multiple Deliverable Revenue Arrangements
In December 2009, the CICA issued EIC 175, "*Multiple Deliverable Revenue Arrangements*". EIC 175, which replaces EIC 142, "*Revenue Arrangements with Multiple Deliverables*", addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. This new standard is effective for annual consolidated financial statements commencing on January 1, 2011, with earlier adoption permitted as of the beginning of a fiscal year. The Company is assessing the impact of the new standard on its financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board of Canada announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 specifically August 6, 2011, for which the current and comparative information will be prepared under IFRS. The Company has developed a three phase changeover plan for the IFRS conversion. The following timeline captures the key dates for the Company:

IFRS Implementation Timeline



Project Status

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

	Key Activities	Milestones/Deadlines	Progress to Date
Financial statement preparation	• Identify differences in Canadian GAAP/IFRS accounting policies. • Evaluate and select IFRS policies & IFRS 1 choices. • Develop financial statement format and disclosure. • Quantify effects of changeover in initial IFRS 1 disclosures and fiscal 2011 financial statements.	• Steering Committee and Audit Committee approval for all key IFRS accounting policy choices to occur during fiscal 2010. • Draft skeleton IFRS annual and interim financial statements by the end of fiscal 2010. • Final quantification of conversion effects on fiscal 2011 comparative period by fiscal 2012.	• Completed diagnostic impact assessment during fiscal 2009, which involved a high level review of major differences between IFRS and Canadian GAAP. • Completed approval of key IFRS accounting policy choices in fiscal 2010; quantification of transition opening balance sheet impacts is underway. • Obtained approval of key IFRS 1 exemptions applicable to the entity in fiscal 2010; quantification of transition impact is underway. • Obtained approval for drafted skeleton annual and interim IFRS financial statements.

	Key Activities	Milestones/Deadlines	Progress to Date
Training and communication	• Educate the Board of Directors, Audit Committee, management, key employees and other stakeholders. • Communicate progress of changeover plan to internal and external stakeholders. • Monitor ongoing IFRS accounting standards developments.	• Ongoing training provided to all groups to align with changeover. • Additional training will occur as needed during the changeover year. • Communicate project status updates regularly until completion of IFRS implementation. • Ongoing monitoring of future developments of standards and interpretations to occur until completion of IFRS implementation.	• Completed training for general awareness of IFRS to broad group of finance employees, Steering Committee, Board of Directors and Audit Committee. • Completed IFRS Implementation training for finance personnel across the organization on key impacts of transition for the Company, changes in accounting policy and dual reporting year requirements. • Frequent project status communications have been provided to internal and external stakeholders. • Frequent attendance by key personnel at relevant seminars, participation in industry peer groups and utilization of key technical resources. • Ongoing monitoring of future developments of standards and interpretations through review of the International Accounting Standards Board ("IASB") work plan and projects underway.
Information systems	• Determine if business processes require change to be IFRS compliant. • Determine if software requires upgrades, changes, or additions to support IFRS reporting requirements.	• IT implementation approach to be completed in fiscal 2010. • Changes to systems and dual record-keeping process to be completed at the beginning of fiscal 2011. • Preparation of quarterly financial information during fiscal 2011 to produce comparative information required in the Company's fiscal 2012 IFRS financial statements.	• Assessment of business processes is underway in conjunction with work on accounting policies. • Completed IT implementation plan in fiscal 2010 to address new information requirements under IFRS particularly related to a significant increase in note disclosures. • Changes to information systems required to prepare the opening balance sheet and gather appropriate information for dual reporting for fiscal 2011 have been completed.

	Key Activities	Milestones/Deadlines	Progress to Date
Contractual arrangements and compensation	• Assess the affect of IFRS on: – Financial covenants; – Compensation arrangements; – Budgeting and planning. • Make any required changes to plans and arrangements.	• Complete necessary covenant negotiations during fiscal 2011. • Complete review of compensation arrangements during fiscal 2011. • Complete budgeting plan during fiscal 2011.	• Preliminary analysis is underway in conjunction with work on accounting policies. Additionally, key performance indicators ("KPI") and budgeting IFRS project groups have been formed to assess transition impacts.
Control environment	• Assess, design, and implement internal controls over financial reporting ("ICFR") for all accounting policy changes. • Assess, design, and implement disclosure controls and procedures ("DC&P") for all identified accounting policy changes.	• Changes to ICFR and DC&P to be completed during fiscal 2011. • Test and evaluate revised controls throughout fiscal 2011. • Update Chief Executive Officer/Chief Financial Officer certification process by the end of fiscal 2011.	• Analysis of control issues is underway in conjunction with the review of IFRS accounting issues and policies. • MD&A disclosures are regularly reviewed and updated with changes in the project status. • IFRS Communications Committee, which includes Investor Relations, has been assembled and is engaged.

Significant Changes in Accounting Policies

The Company continues to assess the effect of the adoption of IFRS and the resulting changes in accounting policies. Any significant accounting policy changes that have been identified to date are detailed below. The list is for significant accounting policy changes identified only, and should not be considered a complete list of all IFRS accounting policy differences for the Company. The Company will continue to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the IASB to determine their impact on the Company.

At this time, the Company is assessing the quantitative impact of the opening balance sheet transitional adjustments and expects to report quantified IFRS results later in fiscal 2011. As IFRS results are quantified throughout the changeover year, the results will be reported on a timely basis.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Property, Plant & Equipment	• IFRS allows the measurement of fixed assets using a cost model or a revaluation model. Canadian GAAP only permits the use of a cost model. The Company has selected to continue using the cost model approach under IFRS.	• Opening balance sheet: The impact is currently being evaluated by the Company. • Subsequent to transition: No significant impact is expected because the Company has selected the same measurement model under IFRS as is utilized under Canadian GAAP.
	• IFRS requires separate amortization of major components of an asset. Under Canadian GAAP this requirement exists, however is less explicit.	• Opening balance sheet: No significant impact is expected. Significant components of assets have been reviewed to determine that the Company separates major components of assets under Canadian GAAP, therefore no change is required. • Subsequent to transition: No significant impact is expected. Assets will be reviewed to identify separate components at each reporting date.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Investment property	• Investment property is a new concept under IFRS that does not exist under Canadian GAAP. Investment properties are defined as properties that are held to earn rentals and/or held for capital appreciation. Investment properties are separately recorded and disclosed under IFRS, while they are recorded with property, plant, and equipment under Canadian GAAP.	• Opening balance sheet: Investment properties will be identified at the date of transition to IFRS and will be separately recorded and disclosed from property, plant and equipment in the opening IFRS balance sheet. The impact is currently being evaluated by the Company. • Subsequent to transition: No significant impact is expected. The Company has selected the cost model for the measurement of investment properties. Therefore, the investment properties identified will continue to be measured as they were under Canadian GAAP when classified as property, plant, and equipment. Investment properties will be assessed at each reporting date. • When utilizing the cost model, the Company must disclose the aggregated fair value of all investment properties. The Company is in the process of obtaining information for this disclosure.
Impairment of long-lived assets	• IFRS tests asset groups for impairment at the independent cash-generating unit ("CGU") level based on generation of cash inflows. Under Canadian GAAP, asset groups are defined based on net cash flows.	• Grouping of assets for impairment purposes will be at a lower level than under Canadian GAAP. • Opening balance sheet: Impairment testing for CGUs where an indicator of impairment exists will be conducted on the Company's transition date. The Company has not yet completed the assessment of the impact. • Subsequent to transition: New monitoring of indicators of impairment will have to be conducted at the CGU level, which represents an individual retail store outlet or theatre for the Company. Increased impairment testing may need to be conducted if indicators exist.
	• IFRS has guidelines surrounding the highest asset group that goodwill and indefinite-life intangible assets can be allocated to for impairment testing purposes that may differ from Canadian GAAP for certain entities.	• Opening balance sheet: No significant impact is expected. Goodwill and indefinite-life impairment testing from previous acquisitions will be at a level consistent with Canadian GAAP. • Subsequent to transition: Goodwill arising from future business acquisitions will be allocated to asset groups based on the synergies expected from the transaction.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Impairment of long-lived assets (continued)	• IFRS requires a single-step impairment test for long-lived assets based on discounted cash flows. Under Canadian GAAP, a two-step approach is used which first compares undiscounted cash flows to the carrying amount and only measures an impairment based on fair value if the undiscounted cash flow is less than its carrying value.	• Opening balance sheet: No significant impact is expected. • Subsequent to transition: The one step impairment test under IFRS may result in more frequent write-downs of assets.
	• Under IFRS previously recognized impairment losses must be considered for reversal when a change in circumstances indicates impairment has been reduced for long-lived assets other than goodwill or indefinite life intangible assets. Reversals of impairment are prohibited under Canadian GAAP.	• Opening balance sheet: No significant impact is expected. • Subsequent to transition: No significant impact is expected. Additional monitoring surrounding indicators of impairment reversal will need to be conducted. Reversal of previous impairments may be required.
Leases	• IFRS does not provide the same quantitative guidelines as Canadian GAAP, but rather has additional qualitative considerations for classification of leases between 'operating' and 'finance' ('capital' under Canadian GAAP) leases.	• Opening balance sheet: No significant impact is expected as the Company had already applied a classification approach which included both quantitative and qualitative considerations. • Subsequent to transition: All new leases will continue to be assessed as 'operating' or 'finance' leases. No significant impact is expected.
	• IFRS has different recognition principles surrounding sale leaseback transactions where the lease is classified as an 'operating' lease and the transaction occurs at fair market value. • IFRS permits recognition of the realized portion of gains on transactions between related parties to the extent of ownership by non-related parties.	• Opening balance sheet: Certain gains related to historical sale leaseback transactions will be recognized on transition to IFRS. Realized portions of historical gains related to sale leaseback transactions with related parties will be recognized on transition to IFRS. • Subsequent to transition: Gains on sale leaseback transactions where the lease is an 'operating' lease and the transaction occurs at fair market value will result in the immediate recognition of any gain rather than deferral over the lease term as under Canadian GAAP. Transactions between related parties will result in the recognition of gains for the realized portion if certain criteria are met.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Provisions	• IFRS uses different terminology than Canadian GAAP and provides more extensive guidance on recognition of provisions defined as liabilities with uncertain timing and/or amount, including the following: – provisions are recognized when it is probable (more likely than not) that an outflow of resources will be required to settle the obligation, while a higher threshold is used under Canadian GAAP; – provisions will be separately classified from other liabilities (current and non-current) on the face of the balance sheet and subject to additional disclosure requirements; – provisions are recognized if either a legal obligation or constructive obligation exists, while only legal obligation is considered under Canadian GAAP; – a provision must be recognized if a contract becomes onerous where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it; and – provisions are discounted when impact is material.	• Opening balance sheet and subsequent to transition: The Company has not yet finalized the assessment of the impact on its opening IFRS balance sheet. It is possible that additional provisions will be recognized under IFRS and/or measurement or timing of recognition of existing liabilities may differ.
Customer loyalty programs	• IFRS requires a deferred revenue recognition approach for customer loyalty programs with the fair value of the award credits to be recognized as a separate component of the sales transaction. Under Canadian GAAP an entity can use a deferred revenue approach or account for the program as an expense. The Company uses the latter approach under Canadian GAAP.	• Opening balance sheet impact: There will be a one-time adjustment related to the deferral of revenue recognized under Canadian GAAP. While the amount is currently being assessed, the Company expects this will not have a significant impact on transition. • Subsequent to transition: No significant impact is expected. The Company will account for its customer loyalty programs using the deferred revenue approach.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Employee benefits	• IFRS requires vested past service costs of defined benefit pension plans to be expensed immediately and unvested past service costs to be recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, all past service costs are generally amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment, or a shorter period.	• Opening balance sheet impact: There will be a one-time adjustment to recognize any vested past service costs at the date of transition to IFRS. While the amount is currently being assessed, the Company expects this will not have a significant impact on transition. • Subsequent to transition: The Company will recognize vested past service costs immediately at the date of a plan amendment rather than amortizing those costs on a straight-line basis.
	• IFRS requires an entity to make an accounting policy choice regarding the recognition of actuarial gains and losses. The three options that are available are as follows: – deferred recognition using a "corridor" approach; – immediate recognition through the income statement; or – immediate recognition through other comprehensive income. • The Company has chosen to recognize actuarial gains and losses immediately through other comprehensive income. This policy was not available to the Company under Canadian GAAP. Previously the Company delayed recognition of actuarial gains and losses by utilizing a "corridor" approach.	• Opening balance sheet impact: No significant impact is expected as a result of this policy choice; however an adjustment to retained earnings is expected as a result of the Company opting to utilize an IFRS 1 exemption to recognize all unamortized actuarial gains and losses through retained earnings upon transition to IFRS. • Subsequent to transition: The Company will recognize actuarial gains and losses into other comprehensive income immediately as they are incurred rather than delaying their recognition and amortizing those gains and losses over time.
Consolidation – Special Purpose Entities ("SPEs")	• IFRS uses a more principles-based control model for consolidation of SPEs. Entities are to be consolidated if the Company has the majority of the risks and rewards of ownership over the subject entity. The control factors considered include: – a majority share ownership; – ability to control the Board; – power to govern financial and operating policies; and – contracted arrangements conferring effective control. • Under Canadian GAAP, VIEs are consolidated based on their equity investment at risk.	• Opening balance sheet impact: The control factors under IFRS for consolidation will be considered as at the transition date to IFRS, specifically related to consolidation of certain franchises. No significant impact is expected as a result of preliminary assessments as most VIEs under Canadian GAAP will continue to be consolidated as SPEs under IFRS. • Subsequent to transition: At each reporting date the Company will continue to assess whether entities must be consolidated by using the IFRS control model.

Key Accounting Policy	Key Difference Between IFRS and Canadian GAAP for the Company	Potential Key Impacts for the Company
Consolidation – subsidiaries and investments in associates	• IFRS requires the use of consistent group accounting policies which is not explicitly required under Canadian GAAP.	• Opening balance sheet impact and subsequent to transition: No significant changes are expected, however, the Company is working closely with all of its investments to ensure that IFRS transition impacts are appropriately captured.
Joint Ventures	• Existing IAS 31, *Interests in Joint Ventures,* allows an entity to account for jointly controlled operations using proportionate consolidation or the equity method. The IASB has a current project underway that will require joint ventures to be accounted for using the equity method, which is expected to be issued in June 2010. Under Canadian GAAP these type of investments are accounted for using proportionate consolidation.	• Opening balance sheet impact and subsequent to transition: Certain investments in joint ventures will be accounted for using the equity method rather than proportionate consolidation method used for Canadian GAAP.

First-Time Adoption of IFRS

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

Business Combinations

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

Fair Value as Deemed Cost

The Company expects to elect to report certain items of property, plant and equipment, investment property, and/or intangible assets in its opening IFRS balance sheet at a deemed cost instead of the actual cost that would be determined under IFRSs. The deemed cost of an item may be either its fair value at the date of transition to IFRSs or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis, and the Company is currently evaluating individual assets for which the election may apply. The impact on the Company's opening IFRS balance sheet is not currently known as the assessment is currently in progress.

Employee Benefits

The Company expects to make the election to recognize all cumulative actuarial gains and losses through retained earnings at the date of transition to IFRSs. Actuarial gains and losses would have to be recalculated under IFRSs from the inception of each of the Company's defined benefit plans if the exemption was not taken. This election must be applied to all defined benefit plans consistently. The quantified amount of this adjustment is currently being assessed to determine its impact on the opening IFRS balance sheet.

Cumulative Translation Differences

The Company expects to elect not to calculate the currency translation difference in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a foreign subsidiary or associate was formed or acquired. Instead, the cumulative translation balance for all foreign operations will be set to zero at the date of transition to IFRS.

Assets and Liabilities of Subsidiaries

The Company has subsidiaries that will adopt IFRS at an earlier date than the Company. The Company expects to elect to measure in its financial statements, the assets and liabilities of these subsidiaries by using the carrying amounts included in the subsidiaries' own financial statements.

CRITICAL ACCOUNTING ESTIMATES

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

Pension, Post-Retirement and Post-Employment Benefits

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

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

The discount rate is based on current market interest rates assuming a portfolio of corporate AA bonds with terms to maturity that, on average, match the terms of the obligation. The appropriate discount rates are determined on April 30th every year. For fiscal 2010, the discount rate used for calculation of pension and other benefit plan expense was 5.50 percent and 5.75 percent, respectively (fiscal 2009 – 6.25 percent and 6.00 percent). The expected long-term rate of return on plan assets for pension benefit plans for fiscal 2010 was 7.0 percent (fiscal 2009 – 7.0 percent). The expected growth rate in health care costs was 9.0 percent for fiscal 2009, fiscal 2010 and fiscal 2011 then grading down by 0.5 percent per annum to an ultimate rate of 5.0 percent in fiscal 2019. The expected future growth rate is evaluated on an annual basis.

The table below outlines the sensitivity of the 2010 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce the impact on the accrued benefit obligation or benefit plan expenses.

	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		$ (2.2)		
Impact of: 1% decrease		$ 2.2		
Discount rate(2)	5.50%	5.50%	5.75%	6.75%
Impact of: 1% increase	$ (28.1)	$ 0.4	$ (20.1)	$ (0.8)
Impact of: 1% decrease	$ 31.8	$ (0.7)	$ 24.2	$ 1.0
Growth rate of health care costs(3)			9.00%	9.00%
Impact of: 1% increase			$ 23.7	$ 2.2
Impact of: 1% decrease			$ (18.4)	$ (1.6)

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

(2) 5.25 percent for the Senior Management Plan and Oshawa SERP and Post-Retirement Benefits, 5.75 percent for Sobeys Post-Retirement Benefit Plan and 4.50 percent for Post-Employment Plan.

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

Goodwill and Long-Lived Assets

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

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

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

Income Taxes

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

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

Valuation of Inventories

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

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

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining DC&P to provide reasonable assurance that material information relating to Empire is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The CEO and CFO have evaluated the effectiveness of the Company's DC&P and have concluded as at May 1, 2010 that Empire's DC&P were designed and operating effectively, and that there were no material weaknesses relating to the design or operation of the DC&P.

Management is also responsible for establishing and maintaining adequate ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). The CEO and CFO have evaluated the effectiveness of Empire's ICFR and have concluded as at May 1, 2010 that Empire's ICFR was designed and operating effectively, and that there were no material weaknesses relating to the design or operations of the ICFR. There have been no changes in the Company's ICFR during the period beginning on January 31, 2010 and ended on May 1, 2010 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

RELATED-PARTY TRANSACTIONS

The Company rents premises from Crombie REIT. In addition, for a period of five years commencing March 23, 2006, Crombie REIT provides administrative and management services to the Company pursuant to a management cost sharing agreement dated March 23, 2006, between a subsidiary of Crombie REIT and ECL. The rental payments are at exchange amount which represents the amount negotiated between the parties as part of the lease agreement. The charges incurred for administrative and management services are on a cost recovery basis (billed at the cost incurred by the invoicing party). For the 52 weeks ended May 1, 2010, the aggregate rental payments to Crombie REIT were $57.3 million (2009 – $46.4 million). For the 52 weeks ended May 1, 2010, charges incurred for administrative and management services were $2.1 million (2009 – $2.9 million). The Company has non-interest bearing notes payable to Crombie REIT in the amount of $7.7 million related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL.

On December 30, 2008, the Company entered into an agreement to provide Crombie REIT with additional financing through a $20.0 million demand loan facility with substantially the same terms and conditions that govern Crombie REIT's floating rate revolving credit facility. On December 30, 2008, the Company had advanced $10.0 million to Crombie REIT under this facility. On January 29, 2009, the $10.0 million advance was repaid in full. During Empire's second quarter, as a result of the improved financial market conditions, this facility was cancelled.

The Company has provided Crombie REIT with fixed rate second mortgage in the amount of $5.9 million (2009 – $6.2 million). The second mortgages have a weighted average interest rate of 5.38 percent with a maturity date of March 2014.

Concurrent with placing the $6.2 million in mortgage financing in fiscal 2009, the authorized amount of the demand loan facility between Empire and Crombie REIT was reduced from $20.0 million to $13.8 million prior to its cancellation in the second quarter as discussed.

On June 25, 2009, Crombie REIT closed a bought-deal public offering of units at a price of $7.80 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for approximately $30.0 million of Class B Units (which are convertible on a one-for-one basis into Units of Crombie REIT). Consequently the Company's interest in Crombie REIT was reduced from 47.9 percent to 47.4 percent.

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

During fiscal 2010, the Company sold eight commercial properties to Crombie REIT for net cash proceeds of $56.7 million, which was fair market value. Since the sale was to an equity accounted investment, no gain was recorded on the sale.

On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT), the Company's interest in Crombie REIT would be approximately 40.3 percent.

Subsequent Events

On May 25, 2010, Sobeys filed a short form prospectus providing for the issuance of up to $500.0 million of unsecured Medium Term Notes. On June 7, 2010, Sobeys issued new Medium Term Notes of $150.0 million, bearing an interest rate of 6.64 percent, maturing on June 7, 2040.

On June 4, 2010, the Company renewed its non-consolidated $650.0 million credit facility that matured on that date for an additional three-year term to expire on June 30, 2013. When completing the credit renewal, Empire's management determined that the Company's credit requirements had decreased and, as a result, the size of the facility was reduced to $450.0 million from $650.0 million.

On July 8, 2010, it was announced that Sobeys has entered into a non-binding letter of intent for the sale of $102 million of Canadian retail properties to Crombie REIT comprising a portfolio of 11 retail properties (the "Portfolio"). The Portfolio totals approximately 496,630 square feet and consists of eight properties located in Western Canada, two in Ontario and one in Atlantic Canada. The sale price represents a going in capitalization rate of approximately 7.7 percent.

Crombie REIT has also entered into an agreement with a syndicate of underwriters to issue, on a bought-deal basis, 2,670,000 units (the "Units") at a price of $11.05 per unit for gross proceeds of approximately $29.5 million. Concurrently, ECL Developments, in satisfaction of its pre-emptive right with respect to the public Unit offering, will subscribe for 1,855,000 Exchangeable LP Units at a price of $11.05 per unit for additional gross proceeds of $20.5 million. Consequently, the Company's interest in Crombie REIT is expected to decrease from 47.4 percent to 47.0 percent. The total $50 million offering is subject to regulatory approval. The terms of the offering will be described in a short form prospectus to be filed with Canadian securities regulators. The offering of Units is expected to close on or about August 4, 2010 and is not conditional upon completion of Crombie REIT's acquisition of the Portfolio.

Other Matters

Asset Backed Commercial Paper

As of May 1, 2010, the Company included in other long-term assets is $30.0 million (2009 – $30.0 million) of third-party ABCP which the Company estimates the fair value to be $21.2 million (2009 – $17.8 million), approximately 71 percent (2009 – 59 percent) of the face value. On January 21, 2009, the Company derecognized the existing held to maturity assets and received restructured ABCP MAV II notes: A1 – $7.8 million, A2 – $17.5 million, B – $3.2 million, C – $0.9 million and $0.6 million of tracking notes (collectively the "restructured notes") as designated in the Montreal Accord as well as accrued interest. The A1 and A2 notes received an A rating from DBRS. The remaining notes have not yet been rated. The restructured notes are floating rate notes with expected payouts in January 2017. The Company has classified these notes as held for trading and as a result are fair valued at each reporting period. During fiscal 2009, the Company received $1.0 million of interest and recorded a $4.7 million pre-tax provision. The Company updated its analysis of the fair value of the restructured notes, including factors such as estimated cash flow scenarios and risk adjusted discount rates, and a pre-tax gain of $3.4 million was recorded in the year ended May 1, 2010.

Discount rates vary depending upon the credit rating of the restructured long-term floating rate notes. Discount rates have been estimated using Government of Canada benchmark rates plus expected spreads for similarly rated instruments with similar maturities and structure. The Company has performed a sensitivity analysis on estimated discount rates used in the fair value analysis and determined that a change of one percent would result in a pre-tax change in the fair value of these investments of approximately $1.6 million (2009 – $1.3 million).

On August 11, 2009, DBRS downgraded the A2 notes from A to BBB (low) under a negative watch. The downgrade did not have a material change in the fair value of the notes. Continuing uncertainties regarding the value of assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further material change in the value of the Company's investment in ABCP which could impact the Company's future earnings. The Company believes it has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of this current third party ABCP liquidity issue.

Employee Future Benefit Obligations

For the 52 weeks ended May 1, 2010, the Company contributed $6.0 million (2009 – $5.8 million) to its registered defined benefit plans. The Company expects to contribute approximately $6.1 million in fiscal 2011 to these plans. The Company continues to assess the impact of the capital markets on its funding requirement.

Designation for Eligible Dividends

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

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

Contingencies

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

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

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

Risk Management

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

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

Competition

Empire's food retailing business, 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 through regionally managed operations. 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 and regional management deployment, to be customer and market-driven, to be focused on superior execution, and to have efficient, cost effective operations. Sobeys reduces its exposure to competitive or economic pressures in any one region of the country by operating in each region of Canada through a network of corporate, franchised, and affiliated stores, and through servicing the needs of thousands of independent, wholesale accounts. Sobeys approaches the market with five distinct formats, with a variety of banners and store sizes to meet anticipated needs of its customers in order to enhance profitability by region and by target market.

Empire's real estate operations, through ECL, 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: (i) acquire a prospective property in compliance with our investment criteria; (ii) lease space in its properties and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect revenues and cash flows.

Continued growth of rental income is dependant on renewing expiring leases and finding new tenants to fill vacancies at market rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar does hold land for future development, it faces significant competition when looking to acquire new land for future development.

Financial

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

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

Liquidity Risk

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

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. Bank indebtedness and approximately 17 percent of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Insurance

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

Human Resources

Empire is exposed to the risk of labour disruption in its operating companies. Labour disruptions pose a moderate operational risk, as Sobeys operates an integrated network of 24 distribution centres across the country for the food retailing division. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2011. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long-term.

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

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

Business Continuity

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

Environmental, Health and Safety

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

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

Occupational Health and Safety

Empire and Sobeys have developed programs to promote a healthy and safe workplace, as well as progressive employment policies focused on the well-being of the thousands of employees who work in 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 and Security

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

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

Technology

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

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail grocery stores as well as for its commercial property 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 these sites.

Legal, Taxation and Accounting

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

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

Operations

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

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

Supply Chain

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

Seasonality

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

Product Costs

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

Utility and Fuel Prices

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

Foreign Operations

Empire does not directly carry out foreign operations; however, Sobeys does have certain foreign operations. Sobeys' foreign operations are limited to a small number of produce brokerage operations based in the United States. These foreign operations are relatively small and are not considered material to Empire on a consolidated basis; as such, the Company does not have any material risks associated with foreign operations.

Foreign Currency

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

Ethical Business Conduct

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

Information Management

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

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

Capital Allocation

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

Access to Capital

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

Economic Environment

Economic conditions have shown some improvement from fiscal 2009 to the end of fiscal 2010; however, management continues to regard conditions as unfavourable which could result in a potential risk to the Company. Management continues to closely monitor economic conditions, including interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

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

Stellarton, Nova Scotia, Canada
June 25, 2010