EMPIRE

COMPANY LIMITED

ANNUAL INFORMATION FORM

Year Ended May 5, 2007

July 26, 2007

2007

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All disclosure is as of Empire's fiscal year-end, May 5, 2007, unless otherwise indicated.

This Annual Information Form contains forward-looking statements which reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of Empire Company Limited ("Empire" or "the Company"). These forward-looking statements include the following items:

- The Company's expectations that the new distribution centre announced for Ontario and the closures of distribution centres in Québec will reduce overall distribution costs, which could be impacted by the number of positions eliminated at its Ontario and Québec distribution centres; and

- The Company's expectations that administrative and business rationalization activities in the current quarter and upcoming quarters will involve costs and provide annualized cost reductions, both of which could be impacted by the final scope and scale of these activities.

Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", and other similar expressions. These statements are based on management's assumptions and beliefs in light of the information currently available to them. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and risks are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including in the Risk Management section of the Company's fiscal 2007 Management's Discussion and Analysis.

When relying on forward-looking statements to make decisions, the Company cautions readers not to place undue reliance on these statements, as a number of important factors could cause results to differ materially from any estimates or intentions expressed in such forward-looking statements. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company.

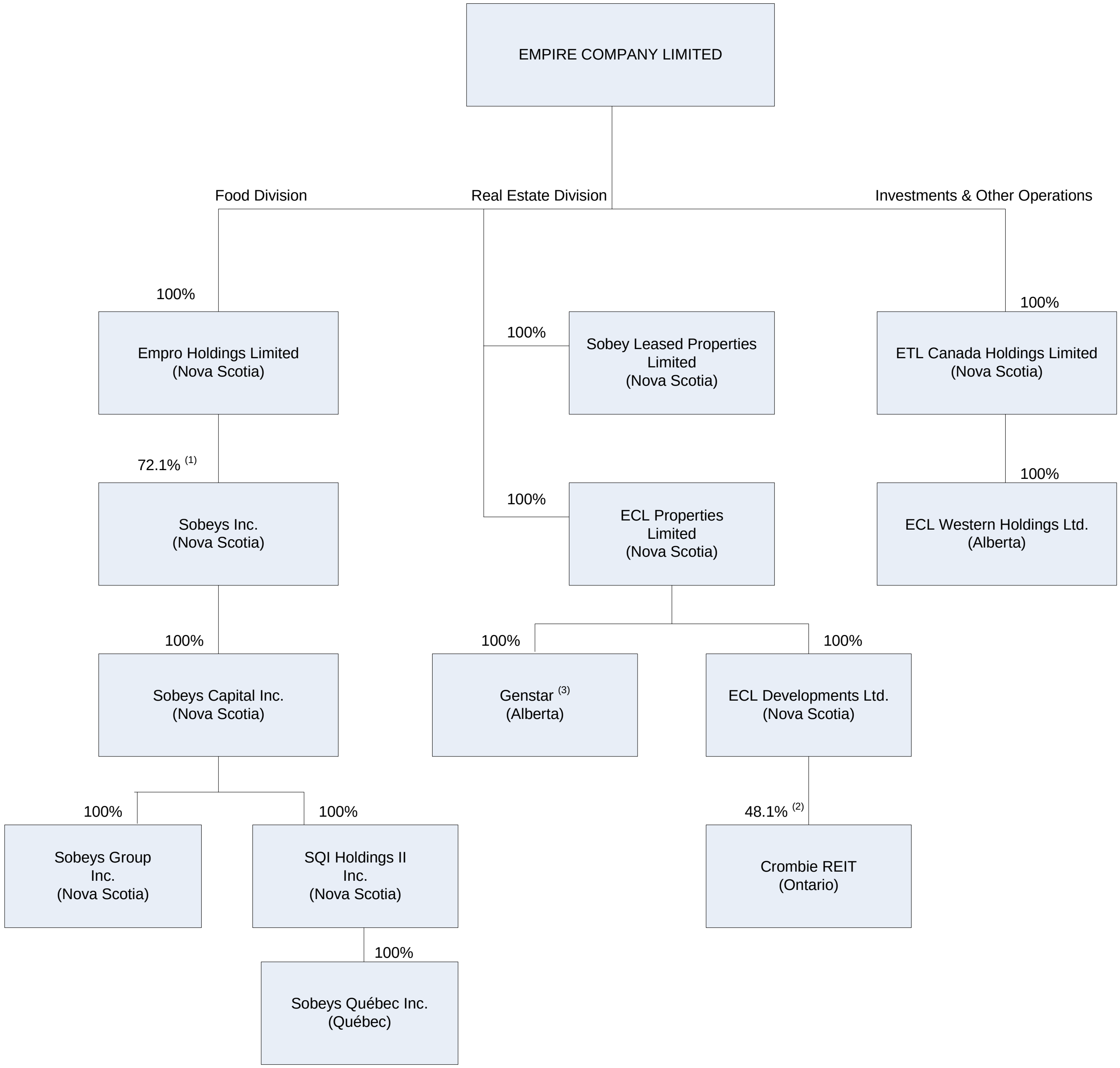
CORPORATE STRUCTURE

Name and Incorporation

Empire Company Limited ("Empire" or the "Company") was created by amalgamation under the Companies Act (Nova Scotia) on January 31, 1973. Predecessors of Empire had been carrying on business since 1907. Empire's head office is located at 115 King Street, Stellarton, Nova Scotia, B0K 1S0. In this Annual Information Form ("AIF"), "Empire" or the "Company" is used to refer collectively to Empire Company Limited and all of its subsidiaries, except where the context requires otherwise.

Intercorporate Relationships

The following chart shows the names of the principal subsidiaries of Empire, their respective jurisdictions of incorporation, and the percentages of voting and non-voting securities owned by Empire as of May 5, 2007. At year-end, common shares of Sobeys Inc. ("Sobeys") were traded publicly on the Toronto Stock Exchange. Subsequent to year-end, on June 15, 2007, Empire acquired all of the common shares of Sobeys that it did not already own. Empire owns Class B Limited Partnership Units in Crombie Limited Partnership that are exchangeable into and equivalent to units of Crombie Real Estate Investments Trust ("Crombie REIT"), representing a 48.1 percent indirect ownership interest in Crombie REIT.



(1) At year-end, approximately 19.0% of the outstanding common shares of Sobeys were held directly by Empire, and the balance of approximately 53.1% were held indirectly through Empro Holdings Limited. Empire owned 72.1% of the voting common shares in Sobeys as at May 5, 2007. Subsequent to year-end on June 15, 2007, Empire acquired all of the common shares of Sobeys which it did not already own.

(2) Empire owns Class B Limited Partnership Units in Crombie Limited Partnership (Nova Scotia) exchangeable into and equivalent to Crombie REIT units, representing a 48.1% indirect ownership interest in Crombie REIT.

(3) Genstar includes a 35.7 percent interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership 2.

GENERAL DEVELOPMENT OF THE BUSINESS

Empire is a Canadian company whose key businesses include food retailing, real estate, and corporate investments and other operations. Empire's primary goal is to grow long-term shareholder value through income and cash flow growth. Over the past three years, Empire has strengthened its businesses through acquisitions, dispositions of non-strategic assets, capital investments, and strategic management. The developments of the various segments of the Company's business over the past three fiscal years are discussed in the following sections.

Food Division

Empire's food division business is carried on through Sobeys, which is headquartered in Stellarton, Nova Scotia. Sobeys Inc. is a leading national grocery retailer and food distributor. A wholly-owned subsidiary of Empire Company Limited (TSX:EMP.A) as of June 15, 2007, Sobeys owns or franchises more than 1,300 stores in all 10 provinces under retail banners that include Sobeys, IGA, Foodland and Price Chopper food stores and Lawtons Drug Stores. Sobeys is committed to providing the most worthwhile experience for its customers, employees, franchisees, suppliers and shareholders. More information on Sobeys can be found at www.sobeys.com.

Over the past three fiscal years, Sobeys has continued to grow and develop as a leading Canadian grocery retailer and food distributor. Sobeys has made significant investment over the past three fiscal years to support that growth, with company-wide capital expenditures of $580 million in 2007, $560 million in 2006 and $436 million in 2005.

On April 26, 2007, Empire and Sobeys entered into a plan of arrangement agreement (the "Arrangement Agreement") pursuant to which on June 15, 2007, Empire acquired all of the outstanding common shares of Sobeys that it did not own at a price of $58.00 per share. At the time Empire owned 72.1 percent of the issued and outstanding common shares of Sobeys.

The total costs of this transaction to Empire were approximately $1,062 million. These costs were funded through the application of the net proceeds of the sale of Empire's portfolio investments totalling approximately $278 million and the drawdown by Empire of approximately $784 million pursuant to a newly established $950 million three-year revolving term unsecured credit facility and a $50 million unsecured term credit facility maturing June 30, 2007 with a syndicate of lenders led by The Bank of Nova Scotia and Bank of Montreal. Under the revolving credit facility, Empire has the option to select from floating interest rate formulas based on the lenders' bankers acceptance rate, the Canadian prime rate, the Canadian base lending rate for U.S. dollar loans and LIBOR. The credit facilities also contain customary financial and other covenants and conditions to advances.

Fiscal 2007

Sobeys' strategy continues to be 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 retail 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. Sobeys remains focused on improving the product, service and merchandising offerings within each format by realigning and renovating its current store base, while continuing to build new stores. Sobeys' major banners: Sobeys, IGA extra, IGA, Foodland and Price Chopper, are the primary focus of these food format development efforts.

During the year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 150 stores. In fiscal 2007, Sobeys continued to execute against a number of initiatives in support of its food-focused strategy including productivity initiatives and business process and system upgrades.

Compliments, Sobeys' private label brand, was launched in fiscal 2005, to contribute to growth of company-wide sales and profitability and earn a greater share of customers' food and grocery shopping requirements. The *Compliments* brand consists of three quality tiers: Value, Selection and Sensations. In addition, Sobeys introduced two sub-brands, *Compliments Organics* and *Compliments balance-équilibre*, an organic and healthy line of products, respectively. At the end of fiscal 2007, the *Compliments* brand consisted of approximately 4,400 *Compliments* products.

Sobeys experienced declines in its wholesale tobacco sales during fiscal 2007. Wholesale tobacco sales declined $123.9 million in fiscal 2007, compared to fiscal 2006. Sales growth was also negatively impacted by the disposition on March 31, 2006 of the Sobeys' Cash & Carry business in Ontario and Québec. Cash & Carry sales were $196.1 million in fiscal 2006.

During fiscal 2007 Sobeys continued to make significant progress in the implementation of system-wide business process optimization initiatives that are designed to reduce complexity and improve processes throughout Sobeys. In fiscal 2006, Sobeys began its business process and information systems transformation plan by focusing on the significant opportunity to upgrade information processing and decision support capabilities and improve efficiencies in the Ontario region. The system and processes that were implemented were developed over several years and are also employed in Sobeys' Atlantic Region. The Ontario roll-out standardized and streamlined the "back shop" in support of Sobeys' food-focused strategy. This move will allow Sobeys to leverage technology investments, improve efficiencies and lower costs over the long-term. During the third quarter of fiscal 2007, Sobeys completed the implementation of the system in Ontario in accordance with its plan. A similar business process and system initiative began in the Western region during fiscal 2007.

On November 21, 2006 Sobeys announced plans to build a new distribution centre in Vaughan, Ontario. Utilizing automation technology, the new facility is expected to significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. During the third quarter of fiscal 2007,Sobeys recognized $5.3 million of severance costs associated with this rationalization. This new distribution centre, when opened in fiscal 2009, is expected to provide annual distribution cost savings in excess of the costs incurred in the third quarter and any additional business rationalization or restructuring costs incurred leading up to its opening.

Fiscal 2006

During fiscal 2006, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 83 stores. Sobeys continued to execute against a number of initiatives in support of its food-focused strategy including productivity initiatives and business process, supply chain and system upgrades.

In fiscal 2006, Sobeys continued the roll-out of the Sobeys banner in Western Canada with the introduction of two new Sobeys stores and one rebannered store in Alberta. The addition of the Alberta stores brought the total Sobeys banner stores in Western Canada to 74.

Compliments, Sobeys' private label brand was launched in fiscal 2005, to contribute to growth of company-wide sales and profitability and earn a greater share of customers' food and grocery shopping requirements. The *Compliments* brand consists of three quality tiers: Value, Selection and Sensations. In addition, Sobeys introduced two sub-brands during fiscal 2006, *Compliments Organics* and *Compliments balance-équilibre*, an organic and healthy line of products respectively. At the end of fiscal 2006, Sobeys had launched approximately 3,700 *Compliments* products.

Sobeys remained focused on productivity and business process optimization initiatives, designed to achieve efficiencies and improve its cost structure. A key productivity focus in fiscal 2006 was the continued roll-out of the first phase of Sobeys' SMART Retailing initiative. The first phase of SMART Retailing focused on continuous improvement processes that have resulted in improved labour productivity in the handling of back-shop inventories, reduction in back room inventories and reduction of waste or shrinkage in produce, bakery, and meat departments. Sobeys completed the first phase of SMART Retailing during the year with the program implemented in 675 stores. The second phase of SMART Retailing began during fiscal 2006 and was implemented in 425 stores in fiscal 2006. The second phase of SMART Retailing focused on the implementation of a comprehensive store performance management process (Peer-to-Peer) supported by tools to assist in the measurement of Sobeys' progress against targets and expectations. Phase two supported the ongoing implementation of SMART Retailing and focused on customer satisfaction, sales growth and margin improvements. The third phase will see the extension of the process and productivity improvements across the store.

During fiscal 2006, Sobeys also made significant progress in the implementation of system-wide business process optimization initiatives that are designed to reduce complexity and improve processes throughout the food division. To this end, Sobeys continued the roll-out of a common point-of-sale ("POS") system. This common POS system provides improved customer information and enhanced customer service at store check-outs, and is a key enabler of other business process optimization initiatives currently underway.

Sobeys also completed the roll-out of a new scale networking system, which improved accuracy and productivity and enabled full compliance with the nutritional labelling requirements that came into effect on December 12, 2005.

As discussed in the fiscal 2005 MD&A, system and process complexities in the Ontario business negatively impacted earnings in that region. In fiscal 2006, Sobeys began implementation of a business process and information systems transformation plan for its operations by focusing on the significant opportunity to upgrade information processing and decision support capabilities and improve efficiencies in the Ontario region. The system and processes that have been implemented were developed over several years and are currently employed in Sobeys' Atlantic region. The Ontario roll-out standardizes and streamlines the "back shop", in support of Sobeys' food-focused strategy. This move allowed Sobeys to leverage technology investments, improve efficiencies and lower costs over the long-term. Costs associated with this initiative totalled $0.19 per share in fiscal 2006.

Fiscal 2005

In fiscal 2005 Sobeys continued to focus on delivering the best food shopping experience to its customers in the right sized stores. The five specific store formats deployed by Sobeys to satisfy its customers' principal shopping requirements are described under the heading "Description of the Business – Operations". Sobeys remained focused on improving the product, service and merchandising offerings within each format by realigning and renovating its existing store base, while continuing to build new stores. During fiscal 2005, Sobeys opened 41 new corporate and franchise stores. Another 21 stores were renovated or expanded and Sobeys also rebannered 36 stores in fiscal 2005.

During fiscal 2005, Sobeys continued the rollout of the IGA "Your Hometown Advantage" program in Western Canada and introduced 11 Sobeys stores in Saskatchewan. The Saskatchewan store program combined a traditional full service Sobeys offering with a discount format grocery pricing position. Sobeys remained competitive in increasingly competitive markets through the continuation of the "We Serve. You Save." pricing program across most of the country. Sobeys' sales growth in fiscal 2005 was partially fuelled by aggressive pricing postures and the continued implementation of sales, merchandising and capital spending initiatives.

In addition to these initiatives which drove sales growth in fiscal 2005, Sobeys also recognized the need to remain focused on growing net income. This required a focus on short, medium and long-term productivity and business process optimization initiatives and cost management.

A key productivity focus was the roll-out of SMART Retailing in fiscal 2005. SMART Retailing involves identification and implementation of best practices in stores across the country without compromising customer service standards. These SMART Retailing initiatives resulted in improved labour productivity in the handling of back-shop inventories, reduction in back room inventories and shrink reduction in produce, bakery, and meat departments. SMART Retailing was implemented in 397 stores in fiscal 2005 with planned completion of the remaining 315 targeted stores in fiscal 2006.

The roll-out of a common POS also began during fiscal 2005. In fiscal 2005, the Company completed the roll-out to 195 stores. This is a long-term initiative that is expected to continue until fiscal 2010. This system provides improved customer information and enhanced customer service at store check-outs, and is a key enabler of other business process optimization currently underway.

Financing

Financing requirements over the past three fiscal years have been fulfilled by accessing the Medium Term Note ("MTN") market. On October 21, 2005, Sobeys filed a final short form shelf prospectus providing for the issuance of up to $500 million of unsecured MTNs over the next two years. On October 6, 2006, Sobeys issued $125 million Series E MTNs with a maturity date of October 6, 2036 and an interest rate of 5.79 percent. Sobeys also utilized its $300 million operating line for short-term liquidity needs. At May 5, 2007, 9.5 percent of the operating line was utilized (for letters of credit only).

Real Estate Division

Empire's real estate division consists primarily of wholly-owned Sobey Leased Properties Limited ("SLP") and ECL Properties Limited ("ECL"), which includes wholly owned ECL Developments Limited, a 35.7 percent interest in Genstar Development Partnership and a 43.3 percent interest in Genstar Development Partnership 2 (collectively referred to as "Genstar"), a residential land development business with operations primarily in Western Canada. ECL also owns various commercial properties held for redevelopment, a self storage operation and a 48.1 percent ownership interest in Crombie REIT. Empire segments its real estate financial results between commercial property operations, consisting of SLP and ECL results (excluding Genstar), and residential property operations which consist primarily of Genstar financial results.

Fiscal 2007

During fiscal 2007, ECL Developments Limited completed several major redevelopment projects, including the Avalon Mall in Newfoundland and the County Fair Mall in Summerside, Prince Edward Island. Ongoing redevelopment projects include the conversion of Fredericton Mall in New Brunswick into a power centre, Phase II of the Greenfield Park site in Montreal and the redevelopment of Highland Square Mall in New Glasgow, Nova Scotia. Also during fiscal 2007, Donald Clow was named President of ECL Developments Limited.

Genstar had a record year in fiscal 2007 as it continued to benefit from significant strength in the residential real estate market, particularly in Calgary and Edmonton.

Fiscal 2006

During the year, Empire created Crombie REIT to acquire income-producing retail, office and mixed-use properties located in Canada, with a growth strategy focused primarily on the acquisition of retail properties in Ontario and Western Canada. On March 23, 2006, Crombie REIT completed its initial public offering of 20,485,224 units at a price of $10 per unit, resulting in gross proceeds of the offering of $204.8 million.

Concurrent with the initial public offering and other related transactions, Crombie REIT used the proceeds of the offering to contribute to the funding of the acquisition of 44 commercial properties in six provinces, totalling approximately 7.2 million square feet, from Empire and certain of its subsidiaries. Crombie REIT had no operations prior to March 23, 2006.

Upon completion of these transactions, and the subsequent exercise of an over-allotment option granted to the underwriters, Empire received Class B units of Crombie Limited Partnership exchangeable into and equivalent to Crombie REIT units representing a 48.3 percent indirect ownership interest in the REIT with a value of $200.8 million based on the initial public offering price of $10 per unit. In addition, Empire also received cash proceeds of approximately $155 million, net of post-closing obligations to Crombie REIT and before taxes. The balance of the purchase price was paid by the assumption of debt by Crombie REIT.

Following completion of these transactions, Empire continued to own approximately 5.9 million square feet of commercial rentable space through wholly-owned SLP and ECL. SLP owned 4.6 million square feet of commercial space that consisted mainly of 51 free-standing Sobeys banner grocery stores, 28 properties with Sobeys banner grocery stores with attached shopping plazas and 6 shopping plazas not including a Sobeys banner grocery store. Total properties in the ECL portfolio at the end of fiscal 2006 consisted of 1.3 million square feet of commercial rentable space represented by 5 properties located in Atlantic Canada.

The remaining wholly-owned real estate operations are primarily focused on commercial property development. The strategic focus moving forward is to position ECL as the property developer of choice for Crombie REIT.

ECL continued to develop its relationship with Genstar through its increased participation in Genstar-U.S. builder deal investments, mainly located in California, and through continued participation in residential development, primarily focused in Western Canada.

Also during fiscal 2006, the real estate division completed Martello Towers, a 108 unit condominium development in Halifax, Nova Scotia, which is part of the Park Lane property complex.

Fiscal 2005

During fiscal 2005, the real estate portfolio was strengthened and further diversified through the development of existing Atlantic Canada properties, development of the Greenfield Park in Montreal and by further land acquisitions in Ontario. In Atlantic Canada, development continued on the Avalon Mall, in St. John’s, Newfoundland and Labrador, County Fair Mall, in Summerside, Prince Edward Island, and Fredericton Mall, in Fredericton, New Brunswick. In Summerside, the construction of a 55,000 square foot Sobeys’ store was created as well as 20,000 square feet of new retail space and two freestanding pad sites totalling between ten to twelve thousand square feet. In Québec, Phase II of the Greenfield Park commercial development commenced. Phase II has a total gross leaseable area of approximately 150,000 square feet. The real estate division acquired one property located in Markham, Ontario. The Greenfield Park, Avalon Mall, County Fair Mall and Fredericton Mall properties were among those transferred to Crombie REIT in fiscal 2006.

Investments and Other Operations

Investments and other operations primarily consist of ETL Canada Holdings Limited and its subsidiaries (collectively "Theatres"), a 27.6 percent interest in Wajax Income Fund ("Wajax") held in the name of E.C.L. Western Holdings Limited and an investment portfolio of liquid equity investments in public companies traded on the Toronto Stock Exchange or major U.S. stock exchanges.

Subsequent to fiscal year-end the investment portfolio, with the exception of the investment in Wajax, was sold to assist in the financing the acquisition of the remaining common shares of Sobeys that Empire did not already own.

As at May 5, 2007, Theatres operated or had an interest in 394 screens in 56 locations across Canada. Theatres has expanded over time, organically and through acquisitions ("see Significant Acquisitions") to become the second largest movie exhibiter in Canada.

On June 15, 2005, Wajax Limited completed a conversion to an income trust pursuant to a plan of arrangement under the Canada Business Corporations Act. As a result of the conversion, the Company acquired 7,452,994 units of Wajax in exchange for its 7,452,944 common shares of Wajax Limited. On June 21, 2005, the Company sold 2.5 million of these units of Wajax to the public through an underwritten secondary offering. Following this sale, which generated approximately $41.3 million in proceeds, the Company held approximately 29.9 percent of the outstanding units of the Wajax. On July 31, 2005, the Company sold a further 375,000 units of Wajax resulting in net proceeds of $6.8 million. As a result of this sale, the Company holds approximately 27.6 percent of the outstanding units of Wajax.

Corporate

From time to time, Empire will acquire, repurchase, or redeem its own securities. On July 28, 2006 the Company obtained approval for a Normal Course Issuer Bid, expiring July 27, 2007, to repurchase for cancellation up to 623,200 Non-Voting Class A Shares representing approximately two percent of those outstanding. Since the beginning of fiscal 2005, the Company has repurchased and cancelled 127,430 Non-Voting Class A Shares.

Trends

Over the past decade, there have been considerable changes in food retailing – reflecting new competitive pressures as well as the changing demographics, lifestyle choices and preferences of Canadians. With the aging of the baby-boom generation and the rise of dual career families, Canadians have more disposable income but less free time, placing a greater value on service and convenience. This has fueled the increasing popularity and demand for ready-to-eat, ready-to-serve products as well as significant growth in frozen foods. As well, the multicultural complexion of the country has evolved – as has consumer focus on health and wellness. All of these trends have been driving demand for greater diversity and choices in food.

At the same time, the entire retail landscape continues to blur, as major retailers across many channels look for a larger share of each customer's wallet and seek to leverage their real estate investments by providing a broader array of non-traditional offerings in their stores. Increasingly, many non-grocers are offering convenience food and grocery products. The Company continues to see significant growth in square footage from traditional competitors. In addition, new mass merchandisers have entered Canadian markets in recent years. During fiscal 2007, food price inflation remained modest across all regions of Canada. The Company expects food inflation to lag overall inflation for the immediate future.

All of these trends have resulted in broader consumer choice, greater value to the customer, increasingly intense competition and growing pressure on gross margins.

With respect to real estate development, the trend has been for large anchor retailers to locate away from traditional enclosed shopping centres to free-standing locations. ECL has and will continue to address this ongoing trend by redeveloping certain regional and neighbourhood shopping centres where anchor tenants may have relocated to free-standing structures.

With respect to the movie-going experience, the trend has been for a more enriched entertainment experience through curved screens, stadium-style seating and a broader array of concession products. Theatres' strategy has been to focus its development activity in relatively small to medium size markets and to provide the movie-goer with a modern cinema experience, with such amenities as noted above.

Reference is also made to the section titled "Description of the Business – Competition."

Significant Acquisitions and Dispositions

On July 16, 2007 the Company announced that Sobeys and Thrifty Foods ("Thrifty") have entered into an agreement that will see Sobeys purchase the British Columbia-based grocery retailer. The transaction is based on an enterprise value of $260 million and is subject to adjustments for, among other items, assumed liabilities and working capital at closing. Thrifty's business includes 20 full-service supermarkets, a main distribution centre and a wholesale division on Vancouver Island and the lower mainland of British Columbia. The deal is expected to close during Company's second quarter following receipt of regulatory approval and completion of due diligence.

On August 27, 2006, Sobeys acquired substantially all of the food distribution assets of Achille de la Chevrotière Ltée and its associated companies ("ADL") for an amount of $79.2 million. The assets acquired included 25 owned or franchised retail store operations and other wholesale supply agreements and distribution facilities in Rouyn-Noranda, Québec.

On March 31, 2006, Sobeys announced the sale of 11 Ontario Cash & Carry operations and the closing of its three remaining Cash & Carry operations in Ontario and Québec.

On September 30, 2005, Theatres acquired 27 movie-theatres operating 202 screens from Cineplex Galaxy LP with 14 locations in Western Canada and 13 locations in Ontario. On October 21, 2005, Theatres acquired an additional movie-theatre with four screens in Western Canada from Motion Picture Distribution LP. The total cash consideration of the acquisitions was $87.8 million. The acquisitions were accounted using the purchase method with net identifiable assets recorded at $51.5 million. On June 15, 2004, Theatres announced the purchase from Famous Players (a division of Viacom Canada Inc.), of four movie-theatres located in Nova Scotia and New Brunswick.

DESCRIPTION OF THE BUSINESS

The following is a brief description of each of Empire's operating segments. Segmented financial information for fiscal 2007 and 2006 is contained in Note 17 of the "Notes to the Consolidated Financial Statements", which is incorporated herein by reference to pages 87 and 88 of the Empire 2007 Annual Report. The Company's consolidated revenue from each segment is derived from major shareholders of the Company or "investees" of the Company (i.e. entities for which the Company would account using the equity or proportionate consolidation methods of accounting) were not material.

Wherever possible, Empire management maximizes synergies between operating companies. For example, its food distribution subsidiaries and other related tenants generated more than one-quarter of

Empire's real estate income in fiscal 2007. For the Company's real estate operations, this relationship provides top-quality anchor tenants and a stable source of revenue and cash flow. For the Company's food, drug, and theatre operations, it provides added flexibility to respond to competitive conditions.

Food Division

Sobeys carries on business in the retail food distribution industry across Canada, including the retail and wholesale distribution of pharmaceutical, health and beauty products. Sobeys' food and pharmacy distribution businesses operate through company-owned stores, franchised stores, affiliated stores and independent accounts.

At May 5, 2007, Sobeys had approximately 37,500 full and part-time employees.

The major businesses and/or regions of Sobeys, their respective geographic areas of operations and their respective operating subsidiary companies are:

BUSINESS/REGION	GEOGRAPHIC AREA	SUBSIDIARY
Sobeys Atlantic (corporate & franchise stores)	Atlantic Canada	Sobeys Group Inc.
Sobeys Québec (corporate & franchise stores)	Québec	Sobeys Québec Inc.
Sobeys Ontario (corporate & franchise stores)	Ontario	Sobeys Capital Incorporated
Sobeys West (corporate & franchise stores)	Western Canada	Sobeys Capital Incorporated
Lawtons (corporate & franchise drug stores)	Atlantic Canada	Lawton's Drug Stores Limited

Operations

Sobeys employs a variety of store formats in its corporate and franchised retail operations, ranging from full service supermarkets to convenience stores, thereby allowing Sobeys to better tailor its offering to the various customer segments it serves.

Sobeys' overarching goal is to satisfy more of its current shoppers' requirements for food and related merchandise while earning the loyalty of more and more customers, resulting in higher sales and profit per square foot. As part of Sobeys' strategy for growth, Sobeys goes to market through five customized store formats:

Full Service Format Stores are food stores that are ready to serve the total food shopping requirements of our customers with the broadest assortment and specialty items designed for each unique market we serve – from sushi bars and kosher cuisine to health and wellness offerings. Full Service Format Stores are intended to provide superior customer care – from full service meat, deli and seafood counters to the value-added food knowledge and expertise provided by our 1,600 Aide-Gourmet personnel in Québec. Full Service Format Stores are branded Sobeys or IGA extra, and are located in Atlantic Canada, Québec, Ontario and Western Canada.

Fresh Service Format Stores are food stores that are ready to serve the "fresh fill-in" and "today's meal" needs of customers, and are intended to provide superior service and customized offerings. Fresh Service Format Stores are branded Sobeys, IGA, and Sobeys *express*, and are located in Western Canada, Ontario and Québec.

Community Service Format Stores are food stores that are ready to serve the "routine and fill-in" food shopping occasions of our customers in rural and one-store communities. Community Service Format Stores are branded IGA and Foodland, and are located in Atlantic Canada, Québec, Ontario and Western Canada.

Price Service Format Stores are food stores that are ready to serve customers with low prices every day, in markets and for customers where price is the driving factor for store selection. Price Service Format Stores are branded Price Chopper and are located in Atlantic Canada, Ontario and Western Canada.

Convenience Service Format Stores are food stores that are ready to serve the "on-the-go" convenience needs of our customers. Convenience Service Format Stores are branded Needs, Marché Bonichoix, and Les Marchés Tradition, and are located in Atlantic Canada and Québec.

The franchise operations of Sobeys provide operational support to its franchisees and affiliated independent retailers in such areas as advertising, promotion, merchandising, purchasing and store planning and design. The objective of this relationship is to provide the independent retailer with many benefits including a broad range of private label products and cooperative advertising and commercial programs. Sobeys operates franchised stores under the IGA, IGA extra, Sobeys, Price Chopper and Foodland banners.

A description of the geographic locations and banners of Sobeys retail stores, including the number of franchised stores versus corporate stores, is provided in the attached Appendix A.

In addition to distribution to corporate and franchised stores, Sobeys provides wholesale distribution of a full range of products to affiliated retail stores and independent accounts. Sobeys' wholesale business is operated under the names Lumsden Brothers, a division of Sobeys Capital Incorporated, in Ontario and TRA Atlantic, a division of Sobeys Group Inc., in Atlantic Canada. Sobeys also operates "Cash & Carry" wholesale outlets in the West and Atlantic provinces where certain convenience store and restaurant operators shop for food and tobacco products. Sobeys continues to operate the food distribution assets acquired from ADL.

Products and Programs

Compliments, Sobeys' private label brand, was launched in fiscal 2005, to contribute to growth of Sobeys' company-wide profitability and earn a greater share of customers' food and grocery shopping requirements. The *Compliments* brand consists of three tiers: Value, Selection and Sensations. In addition, Sobeys has introduced two sub-brands, *Compliments Organics and Compliments balance-équilibre*, an organic and healthy line of products, respectively. At the end of fiscal 2007, the *Compliments* brand consisted of approximately 4,400 products.

During fiscal 2005, Sobeys announced the formation of the *Compliments* Culinary Centre at Toronto's George Brown College and the Sobeys Culinary Centre at the Nova Scotia Community College. These Centres forge a relationship between these two Community Colleges and Sobeys to enable Sobeys to continue developing outstanding product offerings to meet the needs of its customers. The centres provide Sobeys with access to additional industry expertise, agility in product development, innovation, and quality and the ability to further develop customer value.

The AIR MILES® Reward Program is offered to customers by certain banners of Sobeys throughout Atlantic Canada and Québec. The program offers Sobeys' customers discounts, contests, and other loyalty rewards, while providing Sobeys with increased customer loyalty and insight on customer buying habits as part of an overall customer relationship management strategy.

Real Estate Division

SLP and ECL owned in aggregate commercial properties containing 5.7 million square feet of gross leaseable area at the end of fiscal 2007 compared to 5.9 million square feet under ownership a year earlier.

The majority of the real estate group's lands are owned. The remaining lands are leased under long-term leases. First mortgages or similar charges encumber substantially all of the properties.

ECL is primarily focused on commercial property development. The strategic focus moving forward is to position ECL as the developer of choice for Crombie REIT.

Empire, through wholly-owned ECL, has a 48.1 percent interest in Crombie REIT. Crombie REIT holds income-producing retail, office and mixed-use properties located in Canada and has a growth strategy focused primarily on the acquisition of retail properties in Ontario and Western Canada. Crombie REIT has a portfolio of 49 commercial properties in six provinces, comprising approximately 7.7 million square feet of gross leaseable area. Crombie REIT is well positioned in many of its markets, as much of its real estate is strategically situated and mature.

Commercial Operations

ECL is focused on the identification of attractive commercial real estate locations to be successfully developed from an economic standpoint, for preferential sale to Crombie REIT or, in absence of their interest, to a third party. ECL is also focused on completing redevelopment plans for five properties located in Atlantic Canada that are currently held within ECL.

Pursuant to a Development Agreement with Crombie REIT, ECL provides Crombie REIT with a preferential right to acquire all property developments proposed to be undertaken by ECL, which consist of retail (or predominantly retail) space (other than those developed for Sobeys at Sobeys' request). If Crombie REIT elects to participate in a development opportunity, Crombie REIT will then be afforded the opportunity to work with ECL in the planning and design of and budgeting for the respective property and Crombie REIT will also select and approve all proposed tenants for such property. Prior to commencing any development project, ECL and Crombie REIT will agree on an acceptable rate of return for ECL on its investment in the project to be undertaken on Crombie REIT's behalf.

With the formation of Crombie REIT, the management and employees of ECL, other than those people engaged in the development of new properties for ECL, are employed by Crombie REIT. Crombie REIT; through its executive management and other employees provides financial, operations and leasing services as well as general management, administration and support services to ECL. Pursuant to a Management Cost Sharing Agreement, Crombie REIT provides property management services for certain of the properties held by ECL. ECL provides an annual payment consisting of all direct and indirect costs incurred by Crombie REIT in providing services to ECL.

SLP, directly and indirectly, is engaged primarily in the ownership of real property in the Atlantic Provinces, as well as in the provinces of Ontario and Québec, for lease to Sobeys under a head lease arrangement. Sobeys' annual rent is determined by the greater of: (a) the cost of financing, operating and other related property expenses plus a specified percentage of the cost of acquired properties; or (b) a specified percentage of Sobeys' gross annual sales from leased properties. In certain circumstances, SLP may also elect to charge fair market rent. SLP, as agent for Sobeys, sublets the remaining property or parts thereof to third parties.

Residential Operations

Genstar has approximately 4,800 acres of land held for development in Canada. Genstar's management is also focused on residential land development in selected U.S. markets.

Investments and Other Operations

At the end of fiscal 2007, the market value of portfolio investments, excluding its investment in Crombie REIT and Genstar investments, equalled $441.2 million consisting of a 27.6 percent equity interest in Wajax, which had a market value of $154.6 million; other Canadian common equity portfolio investments valued at $391.7 million and foreign common equities valued at $48.0 million in Canadian dollars as well as preferred equities and other investments valued at $1.5 million. The unrealized gain on these investments totalled $219.3 million at the end of fiscal 2007 versus an unrealized gain of $214.3 million at the end of fiscal 2006.

The equity portfolio is liquid in nature and consists of a diversified mix of high quality Canadian and U.S. investments that offer a combination of yield and attractive growth characteristics.

Subsequent to fiscal year-end the remaining investments in the liquid portfolio, with the exception of the investment in Wajax, were sold to assist in the financing the acquisition of the remaining common shares of Sobeys that Empire did not already own.

Other operations consist primarily of wholly-owned Empire Theatres, the second largest movie exhibitor in Canada which owns or has an interest in 394 screens in 56 locations as at May 5, 2007. Theatres' management is focused on identifying new locations in small to mid markets in Canada which could be successfully developed on its own.

Growth

For the three-year period ended May 5, 2007, each of Empire's operating companies continued to expand their asset base and reinvest in existing assets needed to support growth. During this period, cumulative company-wide capital expenditures for Sobeys totalled $1.6 billion, funded primarily through funds from operations, existing bank credit lines, third-party loans, franchise spending and third-party leases. Cumulative capital expenditures for the real estate division totalled $117.3 million and for investments and other operations totalled $121.1 million over this three-year period.

Empire's consolidated revenue in fiscal 2007 was $13.4 billion, an increase of $303.1 million or 2.3 percent compared to fiscal 2006. Substantially all of the Company's consolidated revenues were derived from arms-length customers.

Competition

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry. The most significant operating risk to the food division is the potential for reduced revenues and profit margins as a result of increased competition. Competition in the industry continued to increase in all four of Sobeys' operating regions and is expected to increase in the foreseeable future. To mitigate this risk, Sobeys' strategy is to be geographically diversified with the benefits of national scale, to be customer and market-driven, to be focused on superior execution, and to have 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 by servicing the needs of thousands of independent wholesale accounts. Sobeys approaches the market with a variety of store formats, store sizes, and banners in order to enhance profitability by region and target market.

Empire's real estate operations compete with numerous other developers, managers, and owners of real estate properties in seeking tenants and new properties for future development. The existence of competing developers, managers, and owners could affect our real estate group's ability to lease space in its properties and on rents charged or concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect revenues and cash flows. Other than space leased to affiliated companies, no one tenant accounted for more than 5.0 percent of real estate division total base rental income in fiscal 2007.

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 investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served, and the availability of attractive financing to expand the real estate portfolio where deemed prudent. During fiscal 2007, real estate operations encountered generally positive economic conditions in key markets and a relative lack of new rental space resulted in relatively stable rental rates.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar does have approximately 4,800 acres of land for future development, given the relatively low level of interest rates and continued strong demand for new home construction in many of Genstar's markets, it faces significant competition when looking to acquire new land for future development.

Other Information

Supply Chain & Product Availability

Sobeys' retail store network is serviced through 21 retail support centres (distribution centres) located throughout the country. In addition, certain products are delivered directly to Sobeys' stores by various vendors through a direct delivery process.

Sobeys continues to invest in its distribution and logistics network as evidenced by an expansion of the Debert, Nova Scotia distribution centre which began in the second half of fiscal 2007 and is scheduled for completion in fiscal 2008. As part of the ADL acquisition in August 2006, two distribution centres were added to the distribution network (ADL Abitibi and Delicana).

In fiscal 2008, Sobeys plans to construct a new facility in Trois-Rivières, Québec to handle the distribution of all dairy and yogurt products for the province. Sobeys also plans to replace its distribution centre in Winnipeg, Manitoba which will increase the distribution capacity by 45 percent and allow the West to move all slow moving grocery and re-pack into this facility. Construction will also begin on a new automated distribution centre in Vaughan, Ontario which is scheduled to open in fiscal 2009.

Sobeys continues to undertake specific initiatives designed to reduce distribution and logistics costs through improved productivity. On November 21, 2006 Sobeys announced plans to build a new distribution centre in Vaughan, Ontario. Utilizing automation technology, the new facility is expected to significantly increase Sobeys' warehouse and distribution capacity while reducing overall distribution costs and improving service to its store network and customers. During the third quarter of fiscal 2007 Sobeys recognized $5.3 million of severance costs associated with this rationalization. This new distribution centre, when opened in fiscal 2009, is expected to provide annual distribution cost savings in excess of the costs incurred this quarter and any additional business rationalization or restructuring costs incurred leading up to its opening. In the third quarter of fiscal 2007 Sobeys announced the closure of two small facilities, one in Anjou and one in the Abitibi region of Québec. Rationalization costs related to these facilities of $5.6 million were incurred in the fourth quarter and it is expected that the annualized savings associated with this closure will be approximately $5.0 million.

Sobeys continues to focus on continuous improvement in its logistics function through system upgrades or improvements, voice technology and other logistics productivity software.

Sobeys has no material concerns with respect to product availability. Sobeys' inventories are maintained using a large number of national and regional suppliers.

Intangible Properties

Sobeys is not dependent upon any single trademark or trade name although some trademarks on corporate retail brands and store banner names are important to operations. Sobeys recognizes the importance of its corporate and brand trademarks and the need to protect and enhance their value. It is the practice of Sobeys to register or otherwise protect such intangible assets in all jurisdictions in which it operates.

ECL and its affiliates are not dependent on a single trademark or trade name for the continued success of their operations. The success of the commercial properties owned and managed by ECL and its affiliates is dependent on the quality of individual property management in ensuring that necessary property maintenance and common area services are delivered in a timely and quality manner.

Theatres operates under the Empire Theatres trademark, which has established itself as the second largest movie-exhibitor in Canada with a reputation for well maintained, clean facilities with modern amenities. Management focuses its efforts on providing the movie-goer with a modern cinema experience in order to strengthen the Empire Theatres brand over time.

Seasonality

Sobeys, ECL, and Theatre operations are impacted to some degree by certain holiday periods in the year, however, business is not materially cyclical or seasonal.

Employees

Substantially all of the employees of Empire are employed by the operating subsidiaries, with the majority employed by Sobeys. At year-end 2007, Empire, its subsidiaries and franchise affiliates employed approximately 77,000 full-time and part-time employees, approximately 39,800 of whom are employees of the Company.

During fiscal 2007, the Atlantic Region has been involved in negotiations in the Sobeys distribution centre in Stellarton, Nova Scotia. Negotiations are proceeding to conciliation with the date yet to be determined.

During fiscal 2007 the Western Region negotiated a new three-year agreement for the distribution centre in Thompson, Manitoba. Negotiations resulted in new agreements in Yorkton, Saskatchewan, Moose Jaw, Saskatchewan and Prince Albert, Saskatchewan.

A 15 month strike at a franchise location in Regina was resolved in late November of 2006 with a market competitive agreement that will expire on December 31, 2009. A franchise location in Alberta concluded a new two-year agreement.

During fiscal 2007, the Ontario Region completed a new three-year collective agreement at Sobeys' Milton retail support centre. Three franchise collective agreements were completed in the 2007 fiscal year.

During fiscal 2007, the Québec region renewed the collective bargaining agreement with office employees in Montreal and completed agreements for both warehouse and office employees of the newly acquired ADL business. In the Québec region, 44 collective bargaining agreements were completed within the store network.

Sobeys has good relations with its employees and the unions representing those employees, and strives to conclude acceptable collective agreements without work stoppages.

At fiscal year-end May 5, 2007, ECL employed 29 full-time and part-time employees. ECL maintains good relations with its employees and has experienced no significant labour issues.

At fiscal year-end May 5, 2007, Theatres employed 2,190 full-time and part-time employees. Theatres maintain good relations with its employees and have experienced no significant labour issues.

Bankruptcy

Neither Empire nor any of its subsidiaries have had any bankruptcy, receivership or similar proceedings taken against them nor have they undertaken any voluntary bankruptcy, receivership or similar proceedings within the three most recently completed fiscal years, nor do they expect to undergo any such proceedings in the current fiscal year.

Food Safety

Sobeys, as part of its quality control program, recognizes that food safety, particularly in perishable products, is of utmost importance. Sobeys maintains strict policies in the way it sources, handles and stores food to ensure that food quality and safety are not compromised. Loss of consumer confidence in the safety of the products Sobeys sells could affect Sobeys future performance.

Ethics

Empire is committed to managing its activities in an ethical and socially responsible manner. Empire has established a Code of Business Conduct setting out the Company's expectations for the ethical and appropriate behaviour of all its employees. The Company also has a Code of Conduct for its directors.

The Company has a toll-free anonymous ethics response line in place with a third-party provider. The ethics response line is intended for use by employees to report suspected unethical behaviour within the Company.

Real Estate

Sobeys owns certain retail store locations as well as leases stores from related parties and third-party landlords. At May 5, 2007, of the 26.4 million square feet of retail store space under operation, 9.7 percent was owned, 15.3 percent was leased from related parties and the balance was leased from third-party landlords.

Reorganization

On April 26, 2007 Empire and Sobeys jointly announced that they had entered into the Arrangement Agreement pursuant to which Empire would acquire the common shares of Sobeys, other than those owned by Empire or its subsidiaries at a price of $58.00 per share. Empire completed this acquisition on June 15, 2007, following which the common shares of Sobeys are wholly owned by Empire or its subsidiaries.

Neither Empire nor any of its other subsidiaries have undergone any material reorganization within the three most recently completed fiscal years, other than the sale of 44 properties to Crombie REIT. Reference is made to note 3 of the Consolidated Financial Statements for the year ended May 5, 2007.

Risk and Risk Management

A detailed discussion of operating and financial risks relating to the Company are included in the Management's Discussion and Analysis which is incorporated by reference into this AIF.

DIVIDENDS

The declaration and payment of dividends is at the discretion of the Board.

Empire is not aware of any restrictions that could prevent it from paying dividends.

Empire has no stated policy with respect to payment of dividends on either its Class B Common Shares or on its Non-Voting Class A Shares. Empire has paid dividends on its outstanding shares during the periods indicated as set out below:

	Annual Dividend Rate		
	2007	**2006**	**2005**
Series 2 Preferred Shares	$1.11	$0.87	$0.76
Non-Voting Class A Shares	$0.60	$0.56	$0.48
Class B Common Shares	$0.60	$0.56	$0.48

CAPITAL STRUCTURE

Share Capital

Empire's capital structure as at May 5, 2007 was as follows:

	Number of Shares Authorized	Number of Shares Issued & Outstanding
Preferred Shares, par value of $25 each, issuable in series	2,814,100	-
Series 2 cumulative, redeemable, rate of 75% of prime	-	300,000
2002 Preferred Shares, par value of $25 each, issuable in series	992,000,000	-
Non-Voting Class A Shares, without par value	259,107,435	31,174,037
Class B Common Shares, without par value, voting	40,800,000	34,560,763

During the past three fiscal years 108,430 Non-Voting Class A Shares have been issued under Empire's Executive Share Purchase Plan. These issuances were offset by the repurchase and cancellation by the Company of 127,430 Non-Voting Class A Shares as part of normal course issuer bids.

Non-Voting Class A Shares and Class B Common Shares

The rights of the Non-Voting Class A Shares and Class B Common Shares are subject to the rights of the holders of the Preferred Shares of the Company which enjoy a preferential right to dividends and return of capital on liquidation. The Preferred Shares of the Company are non-voting except that they are entitled to certain voting rights and rights to appointment of directors when certain dividends are in arrears. The following is a summary of the privileges and rights attaching to the Non-Voting Class A Shares and Class B Common Shares of the Company:

1. The Non-Voting Class A Shares and the Class B Common Shares rank equally, pari passu, share for share, with each other and entitle the respective holders thereof to the same rights and benefits except as otherwise provided in the conditions attaching thereto.

2. The directors may at any time and from time-to-time declare a dividend or confer any other benefit whatsoever upon the holders of the Non-Voting Class A Shares without being obliged to declare and equal or any dividend or confer an equal or any other benefit upon the holder of the Class B Common Shares provided that no dividend may be declared in respect of or any other benefit conferred upon the holders of the Class B Common Shares unless concurrently therewith the same dividend is declared in respect of and the same benefit is conferred upon the holders of the Non-Voting Class A Shares.

3. The holders of the Non-Voting Class A Shares may receive notice of and may attend any meeting of the Class B Common shareholders of the Company but are not entitled to vote at the meeting.

4. The Class B Common Shares carry the right to one vote per share at all meetings of the Class B Common shareholders of the Company.

5. Under certain circumstances, the Class B Common Shares may at any time be converted into Non-Voting Class A Shares on a one for one basis. The circumstances, among other things, require the approval of the Board of Directors and require that Class B Common Shares which are to be converted be offered first to all the other holders of Class B Common Shares.

6. No subdivision or consolidation of the Class B Common Shares shall be made unless the same subdivision or consolidation of the Non-Voting Class A Shares is made concurrently. No subdivision or consolidation of the Non-Voting Class A Shares shall be made unless the same subdivision or consolidation of the Class B Common Shares is made concurrently.

If a formal take-over bid (other than a "Family Share Transaction" described below) is made for Class B Common Shares, then the conditions attaching to the Class B Common Shares and Non-Voting Class A Shares generally provide that Canadian holders of Class B Common Shares shall also be entitled to receive an offer to purchase their Class B Common Shares and Canadian holders of Non-Voting Class A Shares shall also be entitled to receive an offer to purchase their Non-Voting Class A Shares on terms and conditions at least as favourable, including the price offered. If an offeror acquires Class B Common Shares pursuant to a formal take-over bid and does not make the same offer for Non-Voting Class A Shares within 60 days, then the Class B Common Shares acquired pursuant to the offer as well as some other Class B Common Shares held by the offeror and any others acting jointly or in concert with the offeror, shall convert to Non-Voting Class A Shares.

A “Family Share Transaction” means any transfer of any kind of an interest in Class B Common Shares to one or more of the descendants of J.W. Sobey, now deceased and formerly a businessman of Stellarton, Nova Scotia. For this purpose, descendants include spouses, companies controlled by any such descendants or their affiliates and trusts for bona fide estate planning purposes primarily for the benefit any such descendants.

Preferred Shares

The Preferred Shares, par value of $25 each, are issuable in series, with each series consisting of such number of shares and having such provisions as may be determined by the directors of the Company prior to issue. The Preferred Shares rank in preference over Non-Voting Class A Shares, Class B Common Shares and 2002 Preferred Shares in respect to the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. The Preferred Shares of each series rank equally with the Preferred Shares of every other series in respect to the payment of dividends and in the distribution of assets. The Company may not create or issue any shares ranking in priority or on par with the Preferred Shares as to the payment of dividends or the distribution of assets without the approval of two thirds of the Preferred shareholders.

The holders of the Series 2 Preferred Shares are entitled to receive a cumulative preferential cash dividend, as and when declared by the Directors, on the last day of January, April, July and October in each year in an amount per share determined as one-quarter of 75 percent of the average prime rate in effect on each day during the three calendar months ending immediately prior to the last day of the calendar month preceding the month in which the dividend payment is to be made multiplied by $25.00.

The Series 2 Preferred Shares may be redeemed at the option of the Company at a price per share equal to $26 per share prior to January 12, 1993 and thereafter at a price reducing by $0.05 per share per annum to $25 together with an amount equal to dividends accrued and unpaid to but not including the date fixed for redemption. In the event of liquidation, dissolution or winding-up, the Series 2 Preferred shareholders are entitled to receive $25 per share plus an amount equal to any accrued and unpaid dividends, before any payment or distribution to the holders of the Non-Voting Class A Shares, Class B Common Shares and 2002 Preferred Shares.

The shareholders of Series 2 Preferred Shares are not entitled to attend or to vote at any meeting of shareholders of the Company unless the Company has failed to pay eight consecutive quarterly dividends on the Series 2 Preferred Shares. So long as any dividends on such shares remain in arrears, the holders of the shares are entitled to attend all meetings of shareholders, vote separately as a class together with the holders of any other series of Preferred Shares who have similar voting rights and to elect two directors of the Company. Each Series 2 Preferred Share entitles the holder to one vote.

2002 Preferred Shares

The 2002 Preferred Shares are issuable in series, with each series consisting of such number of shares and having such provisions as may be determined by the directors of the Company prior to issue. The 2002 Preferred Shares rank in preference over Non-Voting Class A Shares, Class B Common Shares and subordinate to the Preferred Shares in respect to the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. The 2002 Preferred Shares of each series rank equally with the 2002 Preferred Shares of every other series in respect to the payment of dividends and in the distribution of assets. The Company may not create or issue any shares ranking in priority or on a parity to the 2002 Preferred Shares as to the payment of dividends or the distribution of assets without the approval of two thirds of the Preferred shareholders.

Long-Term Debt

The Company has the following long-term debt outstanding:

($ in millions)	As at May 5, 2007	As at May 6, 2006
Long-term debt due within one year	$82.5	$95.4
Liabilities relating to assets held for sale	6.8	7.1
Long-term debt	792.6	707.3
	$881.9	$809.8

During fiscal 2007 Sobeys issued new Series E MTNs of $125 million with an interest rate of 5.79 percent, maturing on October 6, 2036, the proceeds of which were used for general corporate purposes. In fiscal 2006, Sobeys issued $175 million Series D MTNs with an interest rate of 6.06 percent, maturing October 29, 2035. Proceeds from the issuance of the Series D MTNs were used to repay Sobeys' $175 million Series A MTNs which matured on November 1, 2005 and carried an interest rate of 7.60 percent.

Sobeys' debentures and MTNs, and ECL's long-term debt tranches, are not listed or quoted in a market place.

Credit Ratings

Sobeys' credit ratings for its securities at fiscal year-end were as follows:

	Dominion Bond Rating Service	Standard & Poor's
Medium-Term Notes	BBB high (negative trend)	BBB- (stable trend)
Sinking Fund Debentures	BBB high (negative trend)	BBB- (stable trend)

The credit ratings accorded to the debt by the rating agencies are not a recommendation to purchase, hold or sell the debt, in as much as such ratings do not comment as to market price or suitability for a particular investor. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The Company provides the rating agencies with confidential, in depth information in support of the rating process.

DBRS' credit ratings for long-term debt instruments range from AAA to D. DBRS' BBB rating exhibits adequate protection parameters. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial or economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its related securities. Ratings designations may be modified by the addition of a high or low to indicate relative standing within the BBB category. A high designation indicates the debt's relative standing within the BBB category. Each DBRS rating category is appended with one of three rating trends – "Positive", "Stable", or "Negative". The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

S&P's credit ratings for long-term debt instruments range from AAA to D. S&P's BBB- rating exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the Company to meet its financial commitment on the obligation. Ratings designations may be modified by the addition of a plus or minus to indicate relative standing within the BBB category. A minus designation indicates the debt's relative standing within the BBB category. S&P's rating outlook assesses the potential direction that a rating may be headed over the immediate to longer term, with outlooks falling into one of five categories: positive, negative, stable, developing or not meaningful. A stable outlook means that a rating may be lowered in the immediate to longer term.

The credit ratings on the Notes and Debentures may not reflect the potential impact of all risks related to structure and other factors on the value of the Notes and Debentures. In addition, real or anticipated changes in the Sobeys' credit ratings will generally affect the market value of the debt. The foregoing ratings may be revised or withdrawn at any time by the rating agency if in its judgment circumstances warrant.

Subsequent to year-end, DBRS adjusted its credit rating rating of Sobeys to BBB low (negative trend).

MARKET FOR SECURITIES

The Non-Voting Class A Shares (symbol EMP.A) and the Series 2 Preferred Shares (symbol EMP.PR.B) of Empire are both listed on the Toronto Stock Exchange.

The monthly closing high and low share price and the monthly average volume for the Non-Voting Class A Shares for the fiscal year ended May 5, 2007 are as follows:

Month	High ($ per common share)	Low ($ per common share)	Average Daily Volume by Month (in shares)
May 7-31, 2006	43.76	39.77	31,198
June 2006	43.00	41.00	17,923
July 2006	42.50	40.25	26,394
August 2006	45.25	41.31	30,282
September 2006	44.20	39.49	37,521
October 2006	42.76	40.99	18,453
November 2006	41.40	40.60	16,979
December 2006	44.00	40.71	29,759
January 2007	42.76	40.42	30,044
February 2007	43.00	40.70	29,874
March 2007	43.12	40.10	32,626
April 2007	42.70	39.73	42,770
May 1-5, 2007	42.33	41.24	51,269

The monthly closing high and low share price and the monthly average volume for the Series 2 Preferred Shares (EMP.PR.B) for the fiscal year ended May 5, 2007 are as follows:

Month	High ($ per share)	Low ($ per share)	Average Daily Volume by Month (in shares)
May 7-31, 2006	24.45	24.25	47
June 2006	24.25	24.25	73
July 2006	24.25	23.50	25
August 2006	23.50	23.50	0
September 2006	23.50	23.50	0
October 2006	23.50	22.61	24
November 2006	24.95	22.61	1,518
December 2006	24.95	24.95	0
January 2007	24.95	24.95	0
February 2007	24.95	24.95	0
March 2007	24.95	24.95	0
April 2007	24.95	24.95	0
May 1-5, 2007	24.95	24.95	0

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated, three-year financial information relating to the Company is included in Empire's 2007 Management's Discussion and Analysis for the fiscal year ended May 5, 2007, which is incorporated by reference into this AIF.

In addition, the following table provides summary financial information for Empire over the last three fiscal year period.

	Fiscal Year Ended		
(in millions, except per share information)	**May 5, 2007 (52 weeks)**	**May 6, 2006 (52 weeks) (1)**	**May 7, 2005 (53 weeks)**
Revenue	$13,366.7	$13,063.6	$12,435.2
Operating income	440.3	491.4	463.7
Operating earnings	204.4	202.0	182.9
Capital gains and other items, net of tax	5.7	94.8	3.7
Net earnings	$210.1	$296.8	$186.6
Long-term debt, excluding current portion	$792.6	$707.3	$727.4
Shareholders' equity	$2,135.4	1,965.2	1,709.0
Total assets	$5,224.9	5,051.5	4,929.2
Per Share Information, fully diluted			
Operating earnings	$3.10	$3.07	$2.78
Capital gains and other items, net of tax	0.09	1.44	0.05
Net earnings	$3.19	$4.51	$2.83

(1) Restated.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Reference is made to the Company’s Management's Discussion and Analysis for the fiscal year ended May 5, 2007, which is incorporated into this AIF by reference to pages 29 to 68 of the Empire Company Limited 2007 Annual Report.

DIRECTORS AND OFFICERS

The name, province of residence, and principal occupation of each of the directors and officers of Empire as at May 5, 2007 were as follows:

Directors:

Name and Province of Residence	Office	Principal Occupation	Director Since
JOHN L. BRAGG (3)(6) Nova Scotia, Canada	Director	Chairman, President and Co-CEO, Oxford Frozen Foods Limited (food processing) and Chairman of Bragg Communications (which operates under the brand name of Eastlink)	1999
WILLIAM BROCK (3)(5) Ontario. Canada	Director	Corporate Director	2005
ROBERT P. DEXTER Nova Scotia, Canada	Chair	Chair and CEO, Maritime Travel Inc. (travel agency)	1987
JAMES W. GOGAN (2) Nova Scotia, Canada	Director	Corporate Director	1972
ED HARSANT (1) Ontario, Canada	Director	President of Stonehedge Partners	2003
ANNA PORTER (1) Ontario, Canada	Director	Corporate Director	2004
E. COURTNEY PRATT (4)(5) Ontario, Canada	Director	Chairman of Stelco Inc. and Corporate Director	1995
STEPHEN J. SAVIDANT(1) Alberta, Canada	Director	Chairman of ProspEx Resources Ltd.	2004
DAVID F. SOBEY Nova Scotia, Canada	Director	Chair Emeritus, Sobeys Inc.	1963
DONALD R. SOBEY Nova Scotia, Canada	Director	Chair Emeritus, Empire Company Limited	1963
JOHN R. SOBEY (1) Nova Scotia, Canada	Director	Corporate Director	1979
KARL R. SOBEY (3) Nova Scotia, Canada	Director	Corporate Director	2001
PAUL D. SOBEY Nova Scotia, Canada	Director, President and CEO	President and CEO, Empire Company Limited	1993
ROB G. C. SOBEY Nova Scotia, Canada	Director	President and CEO, Lawton's Drug Stores Limited	1998

(1) Audit Committee Member
(2) Audit Committee Chair
(3) Human Resources Committee Member
(4) Human Resources Committee Chair
(5) Corporate Governance and Nominating Committee Member
(6) Corporate Governance and Nominating Committee Chair

The term of office for each person elected or appointed a director is until the next annual meeting of shareholders of Empire or until his or her successor is elected.

Executive Officers Who are Not Directors

Name and Province of Residence	Occupation
PAUL V. BEESLEY Nova Scotia, Canada	Executive Vice-President, Chief Financial Officer, and Secretary
CAROL A. CAMPBELL Nova Scotia, Canada	Vice-President, Risk Management
STEWART H. MAHONEY Nova Scotia, Canada	Vice-President, Treasury and Investor Relations
JOHN G. MORROW Nova Scotia, Canada	Vice-President and Comptroller
FRANK C. SOBEY Nova Scotia, Canada	Vice-President, Real Estate
STUART G. FRASER Nova Scotia, Canada	President and CEO, ETL Canada Holdings Limited
BILL McEWAN Nova Scotia, Canada	President and CEO, Sobeys Inc.
J. BRUCE TERRY (1) Ontario, Canada	Executive Vice President and Chief Financial Officer, Sobeys Inc.
CRAIG GILPIN Ontario, Canada	President Operations, Sobeys Ontario
GARY KERR Alberta, Canada	President Operations, Sobeys West
MARC POULIN Québec, Canada	President Operations, Sobeys Québec
JASON POTTER Nova Scotia, Canada	President Operations, Sobeys Atlantic

(1) Subsequent to year-end and effective July 5, 2007, J. Bruce Terry resigned as an officer of Sobeys Inc.

During the past five years, each of the above-mentioned directors and officers has been engaged in the principal occupation or held the position with the company or firm indicated opposite their name other than:

- Paul V. Beesley, who prior to June 2006 was Senior Vice-President, Chief Financial Officer and Secretary;
- Craig Gilpin who prior to March 2004 was Senior Vice-President, Finance of A&P Canada;
- Anna Porter, who prior to April 2005 was Publisher of Key Porter Books Ltd.;
- E Courtney Pratt, who prior to April 2006 was President and Chief Executive Officer of Stelco Inc.; prior to January 2004 was President and Chief Executive Officer of Toronto Hydro Corporation;

- Stephen J. Savidant, who prior to May 2006 was President and Chief Executive Officer of Esprit Energy Trust and prior to January 2002 was President and Chief Executive Officer of Canadian Hunter Exploration Limited;

- Rob G.C. Sobey, who prior to February 2006 was Senior Vice-President, Merchandising and Marketing of Sobeys Atlantic, prior to June 2003 was Vice-President, Performance Development, Sobeys, and prior to June 2002 was Director, Leadership Administration Sobeys; and

- J. Bruce Terry who prior to January 2005 was Vice Chairman, Marsh Canada Limited.

The number of Class B Common Shares of Empire beneficially owned, directly or indirectly, or over which control or direction is exercised by the directors and executive officers of Empire as a group is 24,719,109 or approximately 71.5 percent of those issued and outstanding. At year-end, the number of common shares of Sobeys beneficially owned, directly or indirectly, or over which control or direction was exercised by the directors and executive officers of Empire as a group was 353,845 or approximately 0.5 percent of the issued and outstanding.

Other Proceedings

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

a) is, or within 10 years before the date of this AIF has been, a director or officer of any company that, while that person was acting in that capacity:

    (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

    (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or

    (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

b) has, within the 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder, or

c) has been subject to:

    (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

    (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflict of Interest

No director or officer of the Company has any existing or potential material conflicts of interest with the Company or any of its subsidiaries.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar is CIBC Mellon Trust Company with offices located in Halifax, Nova Scotia and Toronto, Ontario, and can be contacted by phone at 1-800-387-0825 or by e-mail at enquiries@cibcmellon.com.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate

The Audit Committee Mandate as approved by the Company's Board is included in Appendix B.

The Audit Committee Mandate contains specific policies and procedures for the engagement of non-audit services.

Audit Committee Composition

The members of the Audit Committee, at the fiscal year ended May 5, 2007, and their relevant education and experience are:

1. James W. Gogan (Audit Committee Chair).
    - Business degree
    - From 1994-1998 was President and CEO of Empire
    - President of High Street Investments; director of Black Bull Resources, Nova Scotia Business Inc, Atlantic Institute for Market Studies, The Aberdeen Hospital Foundation, and Chair of the Saint Francis Xavier University Foundation.

2. Edward C. Harsant
    - President, Stonehedge Partners
    - From 2000-2002 was President, North American stores for Staples, Inc.
    - Past President, The Business Depot Ltd; Chair of the Lawtons Advisory Board; member of the Advisory Board of Bargain Shops Holdings Inc; member of the Advisory Board of South Shore Industries Ltd.; former Chair Retail Council of Canada and former director of the Canadian Special Olympics.

3. Anna Porter
    - B.A. M.A. (honours)
    - From 1981-2005 was Publisher of Key Porter Books
    - From 1986-1991 Executive Chairman, Doubleday Canada Ltd.
    - Director of Key Porter Books and the World Wildlife Fund Canada; Advisory Board for the Schulich School of Business; Board of Governors for York University, the Shaw Festival Governing Council and the Soulpepper Theatre Company Advisory Council. She was a former director for Argus Corporation and Maritime Life Assurance Company.

4. Stephen Savidant
    - Master of Business Administration; Bachelor of Mechanical Engineering

- From 2002-2006 was President and CEO of Esprit Energy Trust.
- From 1986-2001 was President and CEO of Canadian Hunter Exploration Ltd.
- Chairman of the Board of Directors of ProspEx Resources Ltd; Vice-Chair, Mount Royal College Board of Governors, Director of Toromont Industries Ltd.; Previously he was on the Principal's Regional Advisory Board (Southern Alberta) for McGill University and Governor of the Canadian Association of Petroleum Producers.

5. John R. Sobey
   - Past President and Chief Operating Officer of Sobeys Inc.
   - 34 years of retail grocery experience at Sobeys – began his career in the retail stores and progressed in various management roles in merchandising; category management and retail store operations
   - Director of Medavie Inc. and Sobeys Inc.

All members of the Audit Committee are considered to be financially literate and independent.

Pre-Approval Policies and Procedures

Reference is made to Appendix B – Section 5(c) for a description of the specific policies and procedures for the engagement of non-audit resources.

External Auditor Service Fees (by Category)

External auditor service fees by category are disclosed in the Management Information Circular for the Company's 2007 annual general meeting of shareholders dated July 26, 2007.

MATERIAL CONTRACTS

Except the Arrangement Agreement, the Company has not entered into any contracts, other than the ordinary course of business, that is material to the Company and that was either entered into since January 1, 2002, and is still in the effect or was entered into within the most recently completed fiscal year.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is not, and was not during fiscal 2007, a party or subject to any legal proceedings or group of similar proceedings, nor are any such proceedings known to the Company to be contemplated, where the amount involved, exclusive of interest and costs, exceed 10 percent of the current assets of the Company.

There were no penalties or sanctions imposed against the Company by, and no settlement agreements entered into by the Company with, a court relating to securities legislation or a securities regulatory authority during fiscal 2007.

INTEREST OF EXPERTS

The Company's auditor is Grant Thornton LLP, 610 East River Road, New Glasgow NS B2H 5E5. The Company's consolidated financial statements as at the year ended May 5, 2007 have been filed under National Instrument 51-102 in reliance on the report of Grant Thornton LLP, independent chartered accountants, given on their authority as experts in auditing and accounting. As of July 26, 2007, the partners and employees of Grant Thornton LLP collectively owned beneficially, directly or indirectly, less than one percent of any class of the Company's outstanding securities.

ADDITIONAL INFORMATION

Empire shall provide any person or company, upon request to the Secretary of the Company:

a) when the securities of Empire are in the course of a distribution pursuant to a short-form prospectus or a preliminary short-form prospectus or a short-form prospectus has been filed in respect of a proposed distribution of its securities,

   (i) one copy of Empire's latest AIF, together with one copy of any document, or the pertinent pages of any document, incorporated therein by reference;

   (ii) one copy of the comparative financial statements of Empire for its most recently completed financial year together with the auditors' report thereon and one copy of any interim financial statements issued by Empire subsequent to such annual audited financial statements;

   (iii) one copy of the Information Circular of Empire in respect of its most recent annual general meeting of shareholders which involved the election of directors; and

   (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

b) at any other time, one copy of any other documents referred to in (a) (i), (ii) and (iii) above, provided that Empire may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of Empire.

Additional information with respect to directors' and officers' remuneration and indebtedness, principal holders of Empire's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in Empire's Management Information Circular dated July 26, 2007, and issued in connection with its annual general meeting of shareholders to be held on September 12, 2007. Additional financial information is provided in the Company's comparative financial statements for its last fiscal year ended May 5, 2007. A copy of such documents may be obtained by request from Paul V. Beesley, Executive Vice President, Chief Financial Officer and Secretary of Empire, via the Empire web site at: www.empireco.ca, or on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

APPENDIX A
Stores and Distribution Centres

All information is as of May 5, 2007

FULL, FRESH & COMMUNITY SERVICE SUPERMARKETS

Geographic Area	*Sobeys*	*IGA*	*IGA extra*	*Foodland*	*Bonichoix*	*Le Marchés Tradition /Thrifty Foods*
Newfoundland and Labrador	14	-	-	26	-	-
Prince Edward Island	5	-	-	-	-	-
Nova Scotia	41	-	-	11	-	-
New Brunswick	22	-	-	4	-	-
Québec	-	176	76	-	91	30
Ontario	86	77	-	107	-	-
Manitoba	14	15	-	-	-	-
Saskatchewan	11	6	-	-	-	2
Alberta	52	58	-	-	-	-
British Columbia	2	4	-	-	-	-
Northwest Territories	-	-	-	-	-	-
TOTAL	**247**	**336**	**76**	**148**	**91**	**32**

DRUG, DISCOUNT AND CONVENIENCE STORES

Geographic Area	*Cash & Carry*	*Clover Farm*	*Price Chopper*	*Needs*	*Lawtons*	*Sobeys express*	*Sobeys Fast-Fuel*	*Western Cellars*
Newfoundland and Labrador	2	-	9	52	18	-	1	-
Prince Edward Island	1	-	2	9	3	-	-	-
Nova Scotia	3	2	9	82	38	-	5	-
New Brunswick	1	-	7	21	7	-	3	-
Québec	-	-	-	-	-	-	-	-
Ontario	-	-	96	-	-	5	-	-
Manitoba	3	-	1	-	-	-	-	-
Saskatchewan	-	-	-	-	-	-	-	-
Alberta	-	-	-	-	-	-	-	22
British Columbia	-	-	-	-	-	-	-	-
Northwest Territories	-	-	-	-	-	-	-	-
TOTAL	**10**	**2**	**124**	**164**	**66**	**5**	**9**	**22**

APPENDIX A – continued

DISTRIBUTION CENTRES

Geographic Area	***Distribution Centres***
Newfoundland and Labrador	3
Prince Edward Island	-
Nova Scotia	4
New Brunswick	1
Québec	7
Ontario	3
Manitoba	1
Saskatchewan	-
Alberta	2
British Columbia	-
Northwest Territories	-
TOTAL	**21**

CORPORATE AND FRANCHISED STORES – BY GEOGRAPHIC AREA

	Corporate Stores		***Franchised Stores***	
Geographic Area	***Number***	***Square Footage***	***Number***	***Square Footage***
Atlantic	359	4,620,682	39	318,236
Québec	16	700,363	357	7,531,766
Ontario	141	4,296,778	230	4,478,007
West	76	1,899,730	114	2,534,923
TOTAL	**592**	**11,517,553**	**740**	**14,862,932**

CORPORATE AND FRANCHISED STORES – BY BANNER

	Sobeys	***IGA***	***IGA Extra***	***Foodland***	***Boni-choix***	***Le Marchés Tradition/ Thrifty Foods***	***Cash & Carry***	***Clover Farm***
Corporate	188	19	12	27	-	2	10	2
Franchise	59	317	64	121	91	30	-	-
TOTAL	**247**	**336**	**76**	**148**	**91**	**32**	**10**	**2**

	Price Chopper	***Needs***	***Lawtons***	***Sobeys express***	***Sobeys FastFuel***	***Western Cellars***
Corporate	70	164	62	5	9	22
Franchise	54	-	4	-	-	-
TOTAL	**124**	**164**	**66**	**5**	**9**	**22**

APPENDIX B

EMPIRE COMPANY LIMITED

AUDIT COMMITTEE MANDATE

EMPIRE COMPANY LIMITED

MANDATE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee (the "Committee") of the Board of Directors (the "Board") has the responsibilities and duties as outlined below:

A. **MANDATE**

- To perform such duties as may be required by:
  - The Nova Scotia Companies Act; and
  - Other applicable legislation and regulations including those of the Nova Scotia Securities Commission, Ontario Securities Commission and the Toronto Stock Exchange.

- To assist the Board of Directors in fulfilling its oversight responsibilities for:
  - The integrity and objectivity of the Company's financial statements;
  - The Company's compliance in order to ensure financial reporting and disclosure of required information is complete, accurate and timely as required by applicable legislation and regulation;
  - The external auditors' independence, performance and fees;
  - Identification and monitoring of principal risks that could impact the financial reporting of the Company; and
  - The system of internal control for financial reporting to ensure the internal controls are appropriately designed, implemented and monitored including reviewing and discussing any significant deficiencies in the design or operation on internal controls, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

- To perform such other duties as may from time to time be assigned to the Audit Committee by regulation or delegated by the Board.

B. **AUDIT COMMITTEE COMPOSITION**

The Audit Committee shall be composed of three or more independent Directors, appointed by the Board on the recommendation of the Corporate Governance and Nominating Committee. Applicable laws and regulations will be followed in evaluating a member's independence.

All members of the Audit Committee shall be financially literate (as defined by applicable legislation). Financially literate shall mean the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's' financial statements. A member of the Board of Directors who is not financially literate may be appointed to the Audit Committee provided that the member becomes financially literate within four months following his or her appointment, subject to the Company's Board of Directors determining that this appointment will not materially adversely affect the ability of the Audit Committee to act independently and to satisfy the other requirements of this mandate.

If an Audit Committee member ceases to be independent for reasons outside the member's reasonable control, the member shall tender their resignation to the Chair of the Corporate

Governance and Nominating Committee, within three months of the occurrence of the event which caused the member to not be independent.

Members are reappointed annually by the Board, with such appointments to take effect immediately following the Annual General Meeting of Shareholders. Members shall hold office until the earlier of the time which their successors are appointed or they cease to be Directors of Empire. Vacancies of members of the Audit Committee may be filled for the remainder of the current term of appointment by the Board, upon recommendation of the Corporate Governance and Nominating Committee within the four month time frame.

The Board shall appoint from the Audit Committee membership a Chair for the Audit Committee to preside at its meetings. The Chair must be independent. If the Chair of the Audit Committee loses their independent status, that person shall cease to be Chair immediately and be replaced as Chair by an existing member of the Committee with the Nominating Committee being asked to replace this member within the four month time frame. In the absence of the Chair, one of the other members of the Audit Committee present shall be chosen by the Audit Committee to preside at the meeting.

C. AUTHORITY

The Audit Committee has the authority to:

1. Conduct or authorize an investigation into any matters within its scope of its mandate or responsibility;

2. At the Company's expense, as determined by the Committee, retain independent legal, accounting or financial advisors and such others as it deems necessary to advise the Audit Committee or assist in carrying out its duties or to assist in the conduct of an investigation;

3. Communicate and meet without Management involvement, the internal auditors, external auditors or outside counsel as necessary; and

4. Call a meeting of the Board to consider any matter of concern to the Audit Committee. The Committee shall have direct access to all books, records, facilities and personnel of the Company including to the external and/or internal auditor as it determines this to be advisable. All employees are to cooperate as requested by Committee members.

D. MEETINGS

The Audit Committee shall meet quarterly or more frequently as circumstances dictate. Meetings of the Audit Committee may be called by:

- The Chair;
- Any member of the Audit Committee; or
- The external auditors.

The external auditors shall be invited to attend and be heard at every Audit Committee meeting, and have the opportunity to discuss matters with the Audit Committee without the presence of Management at each meeting. The Audit Committee will meet in-camera with the external auditors at each meeting.

There shall be an in camera session at each Committee meeting without management. The Secretary of the Company shall act as Secretary of the Audit Committee and minutes of the Audit Committee shall be recorded and maintained by the Secretary.

E. RESPONSIBILITIES

1. As required by the Board, the external auditor reports directly to the Audit Committee.

2. The Audit Committee must recommend to the Board of Directors;
   a) the external auditor to be nominated for purposes of preparing or issuing an auditor's report or performing other audit, review or attest services for Empire; and
   b) the compensation of the external auditor.

3. The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing the Auditor's Report or performing other audit, review or attest services for Empire, including the resolution of disagreements between management and the external auditor regarding financial reporting.

4. The Audit Committee must pre-approve all non-audit services to be provided to Empire or its subsidiary entities by Empire's external auditor. The Audit Committee has established a policy for certain pre-approvals and has delegated to the Chair of the Committee the authority to pre-approve the non-audit services, with such pre-approval presented to the Audit Committee at the next scheduled Audit Committee meeting following such pre-approval.

   De minimis non-audit services satisfy the pre-approval requirement provided:

   a) the aggregate amount of all these non-audit services that were not pre-approved is reasonably expected to constitute no more than 5 percent of the total audit fees paid by Empire and its subsidiaries to Empire's external auditor during the fiscal year in which the services are provided;

   b) Empire or subsidiaries of Empire, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and

   c) the services are promptly brought to the attention of the Audit Committee of Empire and approved, prior to the completion of the audit, by the Audit Committee or by the Chair of the Audit Committee, who has been granted authority to pre-approve non-audit engagements.

   The Audit Committee has instructed management that, to obtain pre-approval, management must detail the work to be performed by the external auditor and obtain the assurance from the external auditor that the proposed work does not impair their independence.

5. The Audit Committee reviews and recommends to the Board approval of Empire's interim and annual financial statements, Annual Information Form, MD&A and quarterly financial and material press releases prior to public disclosure of this information. It also ensures that adequate procedures are in place for the review of financial information extracted or derived from Empire's financial statements, contained in Empire's other financial disclosures and must periodically assesses the adequacy of those procedures.

6. The Audit Committee must establish procedures for:
    a) the receipt, retention and treatment of complaints received by Empire regarding accounting, internal accounting controls, or auditing matters; and
    b) the confidential, anonymous submission by employees of Empire of concerns regarding questionable accounting or auditing matters.

7. The Audit Committee must review and approve Empire's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of Empire.

8. The Audit Committee shall undertake a process to identify the principal risks of the business and ensuring appropriate risk management techniques are in place. This will involve enquiry of management regarding how risks are managed as well as opinions from Internal Audit regarding the degree of integrity of the risk mitigation strategies.

F. Reporting

The reporting obligations of the Committee will include:

- The Audit Committee shall report to the Board on the proceedings of each Audit Committee meeting and on the Audit Committee's recommendations at the next regularly scheduled Board meeting. All supporting schedules and data received and received by the Audit Committee are to be available for examination by any Board member upon request to the secretary of the Audit Committee.

- The Audit Committee shall review the Form 52-110F1 disclosure required in the company's Annual Information Form.