MANAGEMENT'S **DISCUSSION AND ANALYSIS**

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The following Management's Discussion and Analysis ("MD&A") contains commentary from management on the consolidated financial condition and results of operations of Empire Company Limited ("Empire" or the "Company") for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011. Management also provides an explanation of the Company's fourth quarter results, changes in accounting policies, critical accounting estimates and factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This MD&A also provides analysis of the operating performance of the Company's two business segments, as well as a discussion of cash flows, the impact of risks and the outlook for the business. Additional information about the Company, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com or on the Company's website at www.empireco.ca.

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

This discussion and analysis should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011. The audited annual consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and are reported in Canadian dollars.

These consolidated financial statements include the accounts of Empire, its subsidiaries and Special Purpose Entities ("SPEs"), which the Company is required to consolidate. The information contained in this MD&A is current to June 28, 2012, unless otherwise noted.

FORWARD-LOOKING INFORMATION

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

These forward-looking statements include the following items:

- The Company's expectation that its operational and capital structure is sufficient to satisfy its ongoing business requirements, which could be impacted by a significant change in the current economic environment in Canada;
- The Company's belief that its cash and cash equivalents, future operating cash flows and available credit facilities will enable the Company to fund future capital investments, pension plan contributions, working capital and ongoing business requirements, and its belief that it has sufficient funding in place to meet these requirements and other long-term obligations, all of which could be impacted by changes in the economic environment;
- The Company's belief that it and its operating businesses have sufficient unused capacity under its credit facilities to satisfy its financial obligations as they come due, which could be impacted by changes in the economic environment;
- Sobeys Inc.'s ("Sobeys") expected contributions to its registered defined benefit plans, which could be impacted by fluctuations in asset values due to market uncertainties;
- The Company's expected use and estimated fair values of financial instruments, which could be impacted by, among other things, changes in interest rates, foreign exchange rates and commodity prices;
- Sobeys' expectations relating to administrative and business rationalization initiatives, which could be impacted by the final scope and scale of these initiatives;
- Sobeys' expectations regarding the timing of the new distribution centre under construction in Québec and that it will reduce overall business costs, which could be impacted by construction delays and the number of positions eliminated at other distribution centres, respectively;
- Sobeys' expectations relating to pending tax matters with Canada Revenue Agency ("CRA"), which could be determined differently by CRA. This could cause the Company's effective tax rate and its earnings to be affected positively or negatively in the period in which the matter is resolved;
- Sobeys' expectations relating to the acquisition of 236 retail gas locations and related convenience store operations from Shell Canada and the accompanying fuel volumes, which may be impacted by demand;

- Our expectation that the strength of Sobeys' relationship with Crombie Real Estate Investment Trust ("Crombie REIT"), combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value, which may be impacted by commercial real estate market conditions and the availability of mutually desirable properties for development and sale by Sobeys and for purchase by Crombie REIT; and
- Sobeys' expectations of continued sales growth in fiscal 2013, which could be impacted by changes in the economic and competitive environment.

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

Empire cautions that the list of important factors is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information, and are cautioned not to place undue reliance on such forward-looking information. Forward-looking statements may not take into account the effect on the Company's business of transactions occurring after such statements have been made. For example, dispositions, acquisitions, asset write-downs or other changes announced or occurring after such statements are made may not be reflected in forward-looking statements. The forward-looking information in this MD&A reflects the Company's expectations as of June 28, 2012 and is subject to change after this date. The Company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the Company other than as required by applicable securities laws.

NON-GAAP FINANCIAL MEASURES

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

- Adjusted sales are sales excluding the impact of the acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012 and the impact of the 53rd week of sales in fiscal 2011.
- Same-store sales are sales from stores in the same location in both reporting periods.
- Gross profit is calculated as sales less costs of sales.
- Gross margin is gross profit divided by sales.
- Operating income, or earnings before interest and taxes ("EBIT"), is calculated as net earnings before minority interest, finance costs (net of finance income) and income taxes.
- Adjusted operating income is operating income excluding items which are considered not indicative of underlying business operating performance.
- Operating income margin is operating income divided by sales.
- Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as EBIT plus depreciation and amortization of intangibles.
- Adjusted EBITDA is EBITDA excluding items which are considered not indicative of underlying business operating performance.
- EBITDA margin is EBITDA divided by sales.
- Funded debt is all interest bearing debt, which includes bank loans, bankers' acceptances, long-term debt and debt related to assets held for sale.

- Net funded debt is calculated as funded debt less cash and cash equivalents.
- Total capital is calculated as funded debt plus shareholders' equity, net of minority interest.
- Net total capital is total capital less cash and cash equivalents.
- Interest expense is calculated as interest expense on financial liabilities measured at amortized cost plus losses on cash flow hedges reclassified from other comprehensive income.
- Free cash flow is calculated as cash flows from operating activities, less property, equipment and investment property purchases.
- Capital expenditures are property, equipment and investment property purchases.
- Adjusted net earnings are net earnings excluding items which are considered not indicative of underlying business operating performance.
- Book value per common share is shareholders' equity, net of minority interest, less preferred shares, divided by total common shares outstanding.

The following table reconciles Empire's EBITDA to operating income for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Operating income[1]	$ 534.3	$ 525.7
Depreciation	304.1	299.5
Amortization of intangibles	38.2	37.8
EBITDA	$ 876.6	$ 863.0

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

The following tables reconcile Empire's funded debt, net funded debt, net total capital and total capital to GAAP measures reported on the balance sheets as at May 5, 2012, May 7, 2011 and May 2, 2010, respectively.

($ in millions)	May 5, 2012	May 7, 2011	May 2, 2010[1]
Bank indebtedness	$ 4.4	$ –	$ 4.1
Long-term debt due within one year	237.3	49.4	378.8
Liabilities relating to assets held for sale	–	12.7	–
Long-term debt	889.1	1,090.3	821.6
Funded debt	1,130.8	1,152.4	1,204.5
Less: cash and cash equivalents	510.2	615.9	397.3
Net funded debt	620.6	536.5	807.2
Total shareholders' equity, net of minority interest	3,396.3	3,162.1	2,832.9
Net total capital	$ 4,016.9	$ 3,698.6	$ 3,640.1

($ in millions)	May 5, 2012	May 7, 2011	May 2, 2010[1]
Funded debt	$ 1,130.8	$ 1,152.4	$ 1,204.5
Total shareholders' equity, net of minority interest	3,396.3	3,162.1	2,832.9
Total capital	$ 4,527.1	$ 4,314.5	$ 4,037.4

(1) May 2, 2010 reflects the opening balance sheet date under IFRS.

EMPIRE'S STRATEGIC DIRECTION

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

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

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

OVERVIEW

Empire's key businesses include food retailing and corporate investment activities. As a result of the Company's transition to IFRS, the Company's financial results are segmented into two separate operating segments: Food Retailing and Investments and Other Operations.

Food Retailing

Empire's food retailing segment is carried out through its wholly-owned subsidiary, Sobeys, which conducts business through more than 1,500 retail stores (corporately owned and franchised), operating in every province and in over 800 communities across Canada.

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

During the year, Sobeys opened, replaced, expanded, renovated, acquired and/or converted the banners in 324 stores (fiscal 2011 – 124). This included the March 15, 2012 acquisition of 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada. The network acquired includes corporate owned and dealer operated locations, and is expected to have annual fuel volumes in excess of one billion litres.

In fiscal 2012, Sobeys continued to execute a number of initiatives in support of its food-focused strategy including product and service innovations, productivity initiatives and business process, supply chain and system upgrades.

One example of these initiatives is the continued conversion of Price Chopper stores to FreshCo discount stores in the province of Ontario. During the 52 weeks ended May 5, 2012, Sobeys opened or converted 11 additional FreshCo discount stores (fiscal 2011 – 57) bringing the total number of FreshCo stores to 68 at fiscal year-end. These FreshCo discount stores offer low prices without many of the compromises which would typically be experienced at traditional discount grocery retailers. FreshCo shoppers enjoy fresh merchandise at low prices, with an expanded selection of meats and produce, including high quality choices and seasonal, locally produced products. For the 52 weeks ended May 5, 2012, Sobeys incurred costs of $0.6 million in start-up costs excluding fixed asset write-offs related to this initiative (fiscal 2011 – $6.0 million).

Investments and Other Operations

Empire's investments and other operations segment consists of:

1. A 44.3 percent (40.7 percent fully diluted) equity accounted interest in Crombie REIT, a Canadian real estate income trust investing in income-producing retail, office and mixed-use properties in Canada, with a future growth strategy focused primarily on the acquisition of retail properties. Crombie REIT currently owns a portfolio of 161 investment properties in nine provinces, comprising approximately 13.5 million square feet of rentable space;
2. A 40.7 percent equity accounted interest in Genstar Development Partnership, a 45.9 percent equity accounted interest in Genstar Development Partnership II, a 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P., and a 42.5 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar"). Genstar is a residential property developer with operations in select markets in Ontario, Western Canada and the United States;
3. Wholly-owned ETL Canada Holdings Limited ("Empire Theatres"), which is the second largest movie exhibitor in Canada. As of May 5, 2012, Empire Theatres owned 51 locations representing 390 screens; and
4. Kepec Resources Limited ("Kepec"), a party to a joint venture with APL Oil and Gas Limited which has ownership interests in various oil and gas properties in Alberta.

With over $16 billion in annual sales and approximately $6.9 billion in assets, Empire and its subsidiaries directly employ approximately 47,000 people.

Fiscal 2012 Financial Highlights (52 Weeks Versus 53 Weeks Last Year)

- Sales of $16.25 billion, up $292.3 million or 1.8 percent. After adjusting for the impact of the additional week of operations last year and the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased $474.9 million or 3.0 percent.
- Sobeys' same-store sales increased 1.4 percent.
- Adjusted net earnings, net of minority interest, of $320.6 million ($4.71 per share), a $17.4 million or 5.7 percent increase from $303.2 million ($4.45 per share) in fiscal 2011. On a comparable 52-week basis, adjusted net earnings increased $23.7 million or 8.0 percent.
- Net earnings, net of minority interest, of $339.4 million ($4.99 per share), a $61.2 million or 15.3 percent decline from $400.6 million ($5.87 per share) in fiscal 2011. Net earnings last year included a net gain on the sale of a 27.5 percent ownership interest in Wajax Income Fund ("Wajax") of $76.2 million.
- Sobeys opened, acquired or relocated 45 corporate and franchised stores, acquired 236 retail gas locations and related convenience store operations from Shell Canada, expanded 13 stores, rebannered/redeveloped 30 stores and closed 44 stores.
- Free cash flow of $225.1 million versus $210.3 million last year.
- Funded debt to total capital of 25.0 percent, down 1.7 percentage points from 26.7 percent recorded at the end of last fiscal year.
- Annual dividend per Non-Voting Class A and Class B common share increased to $0.90 from $0.80 last year.

The consolidated financial overview provided below reports on the financial performance for 52 weeks ended May 5, 2012, relative to the 53 weeks ended May 7, 2011 and the 52 weeks ended May 1, 2010.

Summary Table of Consolidated Financial Results

($ in millions, except per share amounts)	52 Weeks Ended May 5, 2012	% of Sales	53 Weeks Ended May 7, 2011	% of Sales	52 Weeks Ended May 1, 2010[1]	% of Sales
Sales	$ 16,249.1	100.00%	$ 15,956.8	100.00%	$ 15,516.2	100.00%
EBITDA[2]	876.6	5.39%	863.0	5.41%	819.4	5.28%
Adjusted EBITDA[3][4]	853.2	5.25%	837.7	5.25%	819.4	5.28%
Operating income[2]	534.3	3.29%	525.7	3.29%	479.7	3.09%
Net earnings, net of minority interest	339.4	2.09%	400.6	2.51%	301.9	1.95%
Adjusted net earnings, net of minority interest[3][4]	320.6	1.97%	303.2	1.90%	284.5	1.83%
Basic earnings per share						
Net earnings, net of minority interest	$ 4.99		$ 5.88		$ 4.41	
Adjusted net earnings, net of minority interest[3][4]	$ 4.72		$ 4.45		$ 4.16	
Basic weighted average number of shares outstanding (in millions)	67.9		68.1		68.4	
Diluted earnings per share						
Net earnings, net of minority interest	$ 4.99		$ 5.87		$ 4.40	
Adjusted net earnings, net of minority interest[3][4]	$ 4.71		$ 4.45		$ 4.15	
Diluted weighted average number of shares outstanding (in millions)	68.0		68.2		68.5	
Dividends per share	$ 0.90		$ 0.80		$ 0.74	

(1) Fiscal 2010 reflects Canadian GAAP ("CGAAP") and has not been restated for IFRS.

(2) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(3) For fiscal 2010, adjusted EBITDA reflects reported EBITDA; and adjusted net earnings, net of minority interest, reflects net earnings, adjusted for capital gains, losses and other items.

(4) Excludes items which are considered not indicative of underlying business operating performance.

Outlook

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

Management is clearly focused on directing its energy and capital towards growing the long-term sustainable value of its food retailing, real estate and related businesses. In doing so, we remain committed to: a) supporting Sobeys in its goal to be widely recognized as the best food retailer and workplace environment in Canada; b) the profitable growth of Sobeys' real estate development operations as it develops new properties that are congruent with growing Sobeys and which, upon completion, will be offered for sale to Crombie REIT; c) capitalizing on opportunities afforded as a result of the existing strong relationships between our food retailing and our real estate businesses; and d) continued strengthening of our financial condition through the prudent management of working capital and free cash flow in each operating company.

Food Retailing

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

Sobeys also plans to focus on its workforce management and in-store programs in fiscal 2013 to further improve store productivity. These key customer driven initiatives will assist Sobeys' retail store network in delivering the best food shopping experience, building on the strong foundation that has already been put in place.

Investments and Other Operations

With respect to real estate, Empire remains committed to its investment in both Genstar and Crombie REIT. We are very supportive of the management and strategy of both organizations.

Genstar, in our view, continues to be well capitalized and, with a very capable management team, is favourably positioned to capitalize on new profitable growth opportunities. Genstar continues to seek out compelling acquisition opportunities in select regional markets. We will continue to maintain representation on the Genstar Board.

With respect to Crombie REIT, we are confident that the strength of Sobeys' relationship with Crombie REIT, combined with our strict investment discipline, will prove to be a sustainable competitive advantage and positively correlate to the enhancement of Empire's shareholder value.

Empire expects to continue to benefit from the distinguishing advantage inherent in Sobeys' real estate development operations, whereby it provides robust in-house expertise in the selection and development of commercial locations, which will be offered for sale to Crombie REIT.

Shareholder Return

The Company delivered a total shareholder return of 8.1 percent in fiscal 2012 as shown in the table below. The compound annual return on the Company's shares over the past five years has averaged 8.0 percent and over the past ten years has averaged 8.6 percent. This compares to the compound annual return of the S&P/TSX Composite Index over the past five and ten years of (0.1) percent and 7.0 percent, respectively.

In fiscal 2012, the Company increased its dividend by 12.5 percent to $0.90 per share. This was the sixteenth consecutive year of dividend increases. On June 28, 2012, the Board approved a further dividend increase of 6.7 percent to $0.24 per share quarterly which amounts to $0.96 per share on an annualized basis. Empire's dividends are declared quarterly at the discretion of the Board.

For the fiscal years ended:	May 5, 2012	May 7, 2011	May 1, 2010	May 2, 2009	May 3, 2008	5-Year CAGR(1)
Closing market price per share (TSX: EMP.A)	$ 57.62	$ 54.14	$ 52.98	$ 49.00	$ 39.25	6.4%
Dividend paid per share	$ 0.90	$ 0.80	$ 0.74	$ 0.70	$ 0.66	8.4%
Dividend yield on prior year closing price	1.7%	1.5%	1.5%	1.8%	1.6%	
Increase (decrease) in closing share price	6.4%	2.2%	8.1%	24.8%	(7.3%)	
Total annual shareholder return(2)	8.1%	3.7%	9.9%	26.8%	(5.9%)	8.0%

(1) Compound annual growth rate ("CAGR").

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

MANAGEMENT'S EXPLANATION OF FISCAL 2012 ANNUAL CONSOLIDATED RESULTS

The following is a review of Empire's consolidated financial performance for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

The financial performance of each of the Company's businesses (food retailing and investments and other operations) are discussed in detail in the section entitled "Fiscal 2012 Financial Performance by Segment" in this MD&A.

Sales

Consolidated sales for fiscal 2012 were $16.25 billion, an increase of $292.3 million or 1.8 percent compared to fiscal 2011, largely due to high sales from Sobeys. Sobeys reported sales of $16.02 billion, an increase of $283.9 million or 1.8 percent from the $15.74 billion recorded last year. Fiscal 2011 included an additional week of operations at Sobeys. Excluding the impact of the additional week of operations in fiscal 2011, which resulted in $313.6 million in sales, and the impact of sales relating to the acquisition of 236 retail gas locations and related convenience store operations of $131.0 million in the fourth quarter of fiscal 2012, sales reported by Sobeys increased $466.5 million or 3.0 percent compared to fiscal 2011 and Empire's consolidated sales increased $474.9 million or 3.0 percent. Sobeys' same-store sales increased 1.4 percent in fiscal 2012. The growth in Sobeys' sales continues to be a direct result of increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution and product and services innovation.

The following table shows a reconciliation of sales recorded by Sobeys for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	($) Change	(%) Change
Sales (recorded by Sobeys)	**$ 16,021.9**	$ 15,738.0	$ 283.9	1.8%
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012	**(131.0)**	–	(131.0)	
Impact of 53rd week of sales in fiscal 2011	**–**	(313.6)	313.6	
	(131.0)	(313.6)	182.6	
Adjusted sales	**$ 15,890.9**	$ 15,424.4	$ 466.5	3.0%

Investments and other operations recorded sales of $204.5 million in fiscal 2012 compared to $200.5 million last year.

Please refer to the section entitled "Fiscal 2012 Financial Performance by Segment" for an explanation of the change in sales by segment.

EBITDA

Consolidated EBITDA for the 52 weeks ended May 5, 2012 increased $13.6 million or 1.6 percent to $876.6 million from $863.0 million in fiscal 2011. During this period, EBITDA margin decreased slightly to 5.39 percent from 5.41 percent in the prior year. Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, consolidated adjusted EBITDA for fiscal 2012 was $853.2 million compared to $837.7 million last year, an increase of $15.5 million or 1.9 percent.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
EBITDA (consolidated)(1)	**$ 876.6**	$ 863.0
Adjustments:		
Gain on disposal of assets	**(22.2)**	(19.6)
Sobeys' severance and store closure costs	**–**	27.7
Post-retirement benefit amendment	**–**	(28.5)
Sobeys' organizational realignment costs	**9.2**	–
Dilution gains	**(10.4)**	(4.9)
	(23.4)	(25.3)
Adjusted EBITDA	**$ 853.2**	$ 837.7

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Please refer to the section entitled "Fiscal 2012 Financial Performance by Segment" for an explanation of the change in EBITDA for each segment.

Operating Income

For the 52 weeks ended May 5, 2012, Empire recorded operating income of $534.3 million, an increase of $8.6 million or 1.6 percent from the $525.7 million recorded for the 53 weeks ended May 7, 2011.

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

- Sobeys' operating income contribution to Empire in fiscal 2012 totalled $475.8 million, an increase of $2.4 million or 0.5 percent from the $473.4 million recorded last year.

- Investments and other operations contributed operating income of $58.5 million in fiscal 2012 compared to $52.3 million in fiscal 2011, an increase of $6.2 million or 11.9 percent. Investments and other operations' operating income for fiscal 2011 included $8.6 million in equity accounted earnings generated from the Company's investment in Wajax, which was sold during the second quarter of fiscal 2011.
  - Equity accounted earnings generated by Crombie REIT during the year were $19.7 million compared to $18.4 million in the prior year, an increase of $1.3 million.
  - Real estate partnerships (Genstar) contributed operating income of $30.0 million, a decrease of $2.1 million from the $32.1 million recorded last year.
  - Other operations (net of corporate expenses) contributed operating income of $8.8 million compared to $(6.8) million in fiscal 2011, an increase of $15.6 million.

Please refer to the section entitled "Fiscal 2012 Financial Performance by Segment" for an explanation of the change in operating income for each segment.

Finance Costs

Finance costs, net of finance income, for the 52 weeks ended May 5, 2012 were $59.9 million, a decrease of $15.5 million or 20.6 percent from the $75.4 million recorded in fiscal 2011. The decrease in net finance costs largely reflects lower average consolidated funded debt levels. Finance costs were also lower due to a $2.0 million decrease in net pension finance costs and a $0.5 million increase in finance income. EBITDA to interest expense increased to 14.4 times at the end of fiscal 2012 from 11.9 times at the end of the prior fiscal year.

Consolidated funded debt was $1,130.8 million at the end of fiscal 2012 compared to $1,152.4 million at the end of fiscal 2011, a $21.6 million or 1.9 percent decrease. The decrease in consolidated funded debt from the prior year was primarily due to a $23.7 million decline in funded debt at Sobeys, notwithstanding the purchase of 236 retail gas locations and related convenience store operations for $214.9 million, which was funded using cash on hand, during the fourth quarter of fiscal 2012. This was partially offset by higher debt levels in investments and other operations of $2.1 million.

Income Taxes

The effective income tax rate for fiscal 2012 was 25.8 percent versus 26.0 percent (excluding the gain on the sale of Wajax) in fiscal 2011. The slight decrease in the effective income tax rate is primarily the result of declining income tax rates across the different jurisdictions in which Empire operates.

Net Earnings

Consolidated net earnings, net of minority interest, for the 52 weeks ended May 5, 2012 equalled $339.4 million ($4.99 per share) compared to $400.6 million ($5.87 per share) in fiscal 2011. The decrease of $61.2 million in net earnings, net of minority interest, is largely due to the realization of a net gain, after tax, of $76.2 million from the sale of Wajax last year along with an increase in income taxes, partially offset by the increase in operating income and the decrease in net finance costs, as mentioned.

Fiscal 2011 net earnings were favourably impacted by an additional week of operating results by Sobeys, as mentioned. Management calculates this to have positively impacted fiscal 2011 net earnings, net of minority interest, by approximately $6.3 million.

The following table presents Empire's segmented net earnings, net of minority interest, for the 52 weeks ended May 5, 2012 compared to the 53 weeks ended May 7, 2011.

($ in millions, net of tax)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	($) Change	(%) Change
Food retailing	$ 304.1	$ 297.3	$ 6.8	2.3%
Investments and other operations	35.3	103.3(1)	(68.0)	(65.8%)
Consolidated	$ 339.4	$ 400.6	$ (61.2)	(15.3%)

(1) Includes the net gain of $76.2 million from the sale of a 27.5 percent ownership interest in Wajax.

Adjusted Net Earnings

The table below adjusts fiscal 2012 and fiscal 2011 reported net earnings, net of minority interest, for items which are considered not indicative of underlying business operating performance.

($ in millions, except per share amounts, net of tax)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings, net of minority interest	$ 339.4	$ 400.6
Adjustments:		
Gain on sale of Wajax	–	(76.2)
Gain on disposal of assets	(17.9)	(16.4)
Sobeys' severance and store closure costs	–	20.0
Post-retirement benefit amendment	–	(21.3)
Sobeys' organizational realignment costs	6.4	–
Dilution gains	(7.3)	(3.5)
	(18.8)	(97.4)
Adjusted net earnings, net of minority interest	$ 320.6	$ 303.2
Adjusted net earnings, net of minority interest, by division:		
Food retailing	$ 292.5	$ 280.8
Investments and other operations	28.1	22.4
Adjusted net earnings, net of minority interest	$ 320.6	$ 303.2
Adjusted EPS (fully diluted)	$ 4.71	$ 4.45

For the 52 weeks ended May 5, 2012, excluding the impact of the items in the preceding table, Empire recorded adjusted net earnings, net of minority interest, of $320.6 million ($4.71 per share) compared to $303.2 million ($4.45 per share) recorded in fiscal 2011.

As previously mentioned, Sobeys had an additional week of operations in fiscal 2011, which management calculates to have positively impacted net earnings, net of minority interest, by approximately $6.3 million. Adjusting for the additional week of operations, adjusted net earnings, net of minority interest, on a comparable 52-week basis in fiscal 2011 would have been $296.9 million ($4.35 per share).

For a detailed discussion of financial performance by segment, see the section of this MD&A entitled "Fiscal 2012 Financial Performance by Segment".

FISCAL 2012 FINANCIAL PERFORMANCE BY SEGMENT

Food Retailing

Highlights

- Sobeys achieved fiscal 2012 sales growth of $283.9 million or 1.8 percent to reach $16.02 billion and same-store sales growth of 1.4 percent. After adjusting for the additional week of operations last year and the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, sales growth was $466.5 million or 3.0 percent.
- Operating cash flow of $747.1 million versus $684.5 million in fiscal 2011, up 9.1 percent.
- Total capital expenditures equalled $549.7 million in fiscal 2012 versus $520.8 million last year.
- Opened, acquired or relocated 45 corporate and franchised stores, acquired 236 retail gas locations and related convenience store operations from Shell Canada, expanded 13 stores, rebannered/redeveloped 30 stores and closed 44 stores.

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

	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	52 Weeks Ended May 1, 2010(1)
Sales growth	1.8%	3.4%	3.2%
Same-store sales growth	1.4%	0.2%	1.9%
Return on equity	12.5%	13.1%	11.9%
Funded debt to total capital	27.2%	29.4%	27.1%
Funded debt to EBITDA	1.2x	1.2x	1.2x
Property, equipment and investment property purchases ($ in millions)	$ 550(2)	$ 521(2)	$ 341

(1) Fiscal 2010 reflects CGAAP and has not been restated for IFRS.

(2) This amount reflects the property, equipment and investment property purchases by Sobeys, excluding amounts purchased from the Company and its wholly-owned subsidiaries.

The table below summarizes Sobeys' contribution to Empire's consolidated sales, EBITDA, adjusted EBITDA, operating income, adjusted operating income, net earnings, net of minority interest, and adjusted net earnings, net of minority interest.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	($) Change	(%) Change
Sales	$ 16,044.6	$ 15,756.3	$ 288.3	1.8%
EBITDA(1)	801.8	793.6	8.2	1.0%
Adjusted EBITDA(2)	788.6	775.1	13.5	1.7%
Operating income(1)	475.8	473.4	2.4	0.5%
Adjusted operating income(2)	462.6	454.9	7.7	1.7%
Net earnings, net of minority interest	304.1	297.3	6.8	2.3%
Adjusted net earnings, net of minority interest(2)	292.5	280.8	11.7	4.2%

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(2) Excludes items which are considered not indicative of underlying business operating performance.

Sales

Empire's food retailing segment achieved sales of $16.04 billion in fiscal 2012, an increase of $288.3 million or 1.8 percent over fiscal 2011. During the fiscal year, same-store sales increased by 1.4 percent. Fiscal 2011 included an additional week of operations at Sobeys which accounted for $313.6 million in sales. Excluding the impact of the additional week of operations in fiscal 2011 and the impact of sales relating to the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 of $131.0 million, the food retailing segment realized a sales increase of $470.9 million or 3.0 percent. The growth in Sobeys' sales continues to be a direct result of increased retail selling square footage from new stores and enlargements, coupled with the ongoing implementation of sales and merchandising initiatives, improved store level execution and product and services innovation.

Sobeys expects sales growth to continue in fiscal 2013 as a result of continued capital investment in its retail store network, and offering, merchandising, pricing and operational execution improvements across the country.

Total store square footage increased by 2.1 percent in fiscal 2012 as a result of the opening, acquiring or relocating of 45 stores, the acquisition of 236 retail gas locations and related convenience store operations from Shell Canada and the expansion of 13 stores. There were 30 stores rebannered or redeveloped and 44 stores closed in fiscal 2012.

Business Process and Information System Transformation and Rationalization Costs

During fiscal 2012, Sobeys continued to make progress in the implementation of system-wide business process optimization and rationalization initiatives designed to reduce complexity and improve processes and efficiency. These system-wide business process and rationalization initiatives support all aspects of the business including operations, merchandising, distribution, human resources and administration.

The business process and information systems implementation in Québec began during the first quarter of fiscal 2010. The business process and system initiative costs primarily include labour, implementation and training costs associated with these initiatives. During the 52 weeks ended May 5, 2012, $13.2 million of pre-tax costs were incurred related to these initiatives (fiscal 2011 – $11.5 million).

On October 13, 2011, Sobeys announced an organizational realignment and corresponding leadership appointments. Total costs associated with this initiative for the 52 weeks ended May 5, 2012 were $9.2 million. These expenses were mainly consulting and severance costs of $6.7 million and $2.5 million, respectively.

On January 28, 2011, Sobeys announced plans to build a new distribution centre in Terrebonne, Québec, utilizing the same automated equipment and technology as the Vaughan, Ontario distribution centre. The new facility is expected to become operational during the second half of fiscal 2013 and will allow Sobeys to significantly increase its warehouse and distribution capacity in Québec, while reducing overall distribution costs and improving service to its store network and customers. Additional costs, excluding capital asset additions, of $4.9 million have been recorded for the 52 weeks ended May 5, 2012 (fiscal 2011 – $6.2 million).

Gross Profit

Sobeys recorded gross profit for the 52 weeks ended May 5, 2012 of $3,874.2 million, an increase of $28.9 million or 0.8 percent compared to $3,845.3 million in fiscal 2011. For the 52 weeks ended May 5, 2012, gross margin, which is gross profit divided by sales, decreased 25 basis points to 24.18 percent compared to 24.43 percent for the 53 weeks ended May 7, 2011. This decrease is primarily the result of Sobeys experiencing higher input costs without the associated retail price inflation.

EBITDA

For the 52 weeks ended May 5, 2012, Sobeys contributed EBITDA to Empire of $801.8 million compared to $793.6 million in fiscal 2011, an increase of $8.2 million or 1.0 percent. This increase primarily relates to higher gross profit, partially offset by higher selling and administrative expenses. Included in Sobeys' EBITDA for fiscal 2012 were gains on the disposal of assets of $22.0 million (fiscal 2011 – $18.0 million) and organizational realignment costs of $9.2 million (fiscal 2011 – $nil). As a percent of sales, EBITDA declined slightly to 5.00 percent compared to 5.04 percent in fiscal 2011.

Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, Sobeys' adjusted EBITDA contribution to Empire for the 52 weeks ended May 5, 2012 was $788.6 million (4.92 percent of sales) compared to $775.1 million (4.92 percent of sales) last year.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
EBITDA (contributed by Sobeys)(1)	$ 801.8	$ 793.6
Adjustments:		
Gain on disposal of assets	(22.0)	(18.0)
Sobeys' severance and store closure costs	–	27.7
Post-retirement benefit amendment	–	(28.0)
Sobeys' organizational realignment costs	9.2	–
Dilution gains	(0.4)	(0.2)
	(13.2)	(18.5)
Adjusted EBITDA	$ 788.6	$ 775.1

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Operating Income

Sobeys' operating income contribution to Empire for the 52 weeks ended May 5, 2012 was $475.8 million compared to $473.4 million last year, an increase of $2.4 million or 0.5 percent. This increase primarily relates to higher EBITDA, as discussed, partially offset by higher depreciation and amortization expenses. Operating income margin for the 52 weeks ended May 5, 2012 equalled 2.97 percent versus 3.00 percent in fiscal 2011.

Adjusting for items which are considered not indicative of underlying business operating performance, Sobeys contributed adjusted operating income to Empire in fiscal 2012 of $462.6 million (2.88 percent of sales) compared to $454.9 million (2.89 percent of sales) in the prior year, an increase of $7.7 million or 1.7 percent.

The following table reconciles Sobeys' operating income contribution to its adjusted operating income contribution to Empire.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Operating income (contributed by Sobeys)[1]	$ 475.8	$ 473.4
Adjustments:		
Gain on disposal of assets	(22.0)	(18.0)
Sobeys' severance and store closure costs	–	27.7
Post-retirement benefit amendment	–	(28.0)
Sobeys' organizational realignment costs	9.2	–
Dilution gains	(0.4)	(0.2)
	(13.2)	(18.5)
Adjusted operating income	$ 462.6	$ 454.9

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Sobeys continues to focus on disciplined cost management initiatives, supply chain and retail productivity improvements, the migration of best practices and planned capital investments to drive sales and improve margins over time.

Net Earnings

Sobeys contributed net earnings, net of minority interest, of $304.1 million to Empire in fiscal 2012, an increase of $6.8 million or 2.3 percent from the $297.3 million recorded in the prior year. The increase in net earnings, net of minority interest, is primarily a result of higher operating income, as discussed, and lower net finance costs, partially offset by higher income taxes. Net earnings in fiscal 2011 benefited from the additional week of operations which accounted for approximately $6.3 million in net earnings last year. After adjusting for the additional week of operations in fiscal 2011, Sobeys' net earnings, net of minority interest, increased $13.1 million or 4.5 percent.

Adjusted Net Earnings

Sobeys contributed adjusted net earnings, net of minority interest, of $292.5 million to Empire for the 52 weeks ended May 5, 2012 compared to $280.8 million last year, an increase of $11.7 million or 4.2 percent. Included in the adjustments for Sobeys in fiscal 2012 are gains on the disposal of assets of $17.7 million (fiscal 2011 – $15.3 million) and organizational realignment costs of $6.4 million (fiscal 2011 – $nil). These and other items which are considered not indicative of underlying business operating performance are outlined in the table below.

($ in millions, net of tax)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings, net of minority interest (contributed by Sobeys)	$ 304.1	$ 297.3
Adjustments:		
Gain on disposal of assets	(17.7)	(15.3)
Sobeys' severance and store closure costs	–	20.0
Post-retirement benefit amendment	–	(21.0)
Sobeys' organizational realignment costs	6.4	–
Dilution gains	(0.3)	(0.2)
	(11.6)	(16.5)
Adjusted net earnings, net of minority interest	$ 292.5	$ 280.8

After adjusting for the additional week of operations at Sobeys in fiscal 2011, Sobeys' adjusted net earnings, net of minority interest, increased $18.0 million or 6.6 percent.

Investments and Other Operations

Highlights

- Sales of $204.5 million, up $4.0 million or 2.0 percent.
- Operating income of $58.5 million, up $6.2 million or 11.9 percent.
- Acquired an additional $83.0 million in Crombie REIT Class B units.
- Crombie REIT's market capitalization surpassed $1.0 billion with Empire's investment carrying a market value of $521 million.
- Equity earnings from Crombie REIT of $19.7 million versus $18.4 million last year.
- Equity earnings from real estate partnerships (Genstar) of $30.0 million compared to $32.1 million last year.
- Improved operating performance from Empire Theatres.

The table below presents sales, EBITDA, adjusted EBITDA, operating income, net earnings and adjusted net earnings for the investments and other operations segment.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011	($) Change
Sales	$ 204.5	$ 200.5	$ 4.0
EBITDA	74.8	69.4	5.4
Adjusted EBITDA(1)	64.6	62.6	2.0
Operating income			
Crombie REIT(2)	19.7	18.4	1.3
Real estate partnerships(3)	30.0	32.1	(2.1)
Wajax	–	8.6	(8.6)
Other operations, net of corporate expenses(4)	8.8	(6.8)	15.6
	58.5	52.3	6.2
Net earnings(5)	35.3	103.3	(68.0)
Adjusted net earnings(1)	28.1	22.4	5.7

(1) Excludes items which are considered not indicative of underlying business operating performance.

(2) 44.3 percent (40.7 percent fully diluted) equity accounted interest in Crombie REIT (May 7, 2011 – 46.4 percent interest).

(3) 40.7 percent equity accounted interest in Genstar Development Partnership, 45.9 percent equity accounted interest in Genstar Development Partnership II (fiscal 2011 – 44.8 percent interest), 42.1 percent equity accounted interest in each of GDC Investments 4, L.P., GDC Investments 5, L.P., and GDC Investments 6, L.P. and 42.5 percent equity accounted interest in GDC Investments 7, L.P. (collectively referred to as "Genstar").

(4) Other operations (net of corporate expenses) operating income for the 52 weeks ended May 5, 2012 includes an impairment charge related to an investment of $1.1 million (fiscal 2011 – $9.6 million), dilution gains of $10.0 million (fiscal 2011 – $4.7 million), a gain on the disposal of assets of $0.2 million (fiscal 2011 – $1.6 million) and a post-retirement benefit amendment of $nil (fiscal 2011 – $0.5 million).

(5) Net earnings for the 53 weeks ended May 7, 2011 includes a net gain on the sale of a 27.5 percent ownership interest in Wajax of $76.2 million.

At May 5, 2012, Empire's investment portfolio, including equity accounted investments in Crombie REIT and Genstar, consisted of:

	May 5, 2012			May 7, 2011		
($ in millions)	Market Value	Carrying Value	Unrealized Gain	Market Value	Carrying Value	Unrealized Gain
Investment in Crombie REIT	$ 520.7	$ 167.4	$ 353.3	$ 403.8	$ 91.0	$ 312.8
Investment in Genstar(1)	138.8	138.8	–	121.1	121.1	–
Canadian Digital Cinema Partnership(1)	7.2	7.2	–	–	–	–
Other investments(1)(2)	13.0	13.0	–	14.3	14.3	–
	$ 679.7	$ 326.4	$ 353.3	$ 539.2	$ 226.4	$ 312.8

(1) Assumes market value equals book value.

(2) Includes Crombie REIT convertible unsecured subordinated debentures with a market value of $12.8 million (May 7, 2011 – $11.9 million).

Sales

Investments and other operations' sales equalled $204.5 million for the 52 weeks ended May 5, 2012 versus $200.5 million in fiscal 2011, a $4.0 million or 2.0 percent increase. The increase was primarily driven by an increase in sales at Empire Theatres, partially offset by a decrease in sales generated by the Company's other operations.

EBITDA

For the 52 weeks ended May 5, 2012, investments and other operations contributed EBITDA to Empire of $74.8 million compared to $69.4 million last year, an increase of $5.4 million or 7.8 percent. This increase primarily relates to a higher EBITDA contribution from Empire Theatres. Adjusting for items which are considered not indicative of underlying business operating performance, as outlined in the table below, results in adjusted EBITDA from investments and other operations for fiscal 2012 of $64.6 million compared to $62.6 million last year, an increase of $2.0 million or 3.2 percent.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
EBITDA (investments and other operations)	$ 74.8	$ 69.4
Adjustments:		
Gain on disposal of assets	(0.2)	(1.6)
Post-retirement benefit amendment	–	(0.5)
Dilution gains	(10.0)	(4.7)
	(10.2)	(6.8)
Adjusted EBITDA	$ 64.6	$ 62.6

Operating Income

Investments and other operations contributed operating income of $58.5 million in fiscal 2012 compared to $52.3 million last year, an increase of $6.2 million or 11.9 percent. Equity accounted earnings generated from the Company's investments in real estate partnerships (Genstar) amounted to $30.0 million compared to $32.1 million in fiscal 2011, a decrease of $2.1 million primarily as a result of weaker lot sales during the year. Equity accounted earnings from the Company's investment in Crombie REIT equalled $19.7 million in fiscal 2012 compared to $18.4 million in the prior year, a $1.3 million increase primarily driven by higher property revenues and the resulting higher property net operating income reported by Crombie REIT. Operating income from other operations, net of corporate expenses, increased to $8.8 million from $(6.8) million in fiscal 2011. The increase in operating income from other operations, net of corporate expenses, was partially due to: (i) an impairment charge relating to an investment of $1.1 million (fiscal 2011 – $9.6 million); (ii) dilution gains of $10.0 million in fiscal 2012 (fiscal 2011 – $4.7 million) resulting from a reduction in the Company's ownership interest in Crombie REIT; and (iii) higher operating performance from Empire Theatres.

Adjusting investments and other operations' operating income for items which are considered not indicative of underlying business operating performance, as outlined in the previous table, resulted in an adjusted operating income contribution of $48.3 million versus $45.5 million in fiscal 2011, an increase of $2.8 million or 6.2 percent.

As a result of the sale of Wajax in the second quarter last year, there were no equity accounted earnings for the 52 weeks ended May 5, 2012 from Wajax compared to an $8.6 million contribution in fiscal 2011.

Net Earnings

During the 52 weeks ended May 5, 2012, investments and other operations contributed $35.3 million to Empire's consolidated net earnings compared to a contribution of $103.3 million in net earnings in fiscal 2011. The $68.0 million decrease is primarily attributed to the net gain on the sale of Wajax of $76.2 million in the second quarter last year and higher income taxes, partially offset by the increase in operating income and lower net finance costs.

Adjusted Net Earnings

Investments and other operations contributed adjusted net earnings of $28.1 million for the 52 weeks ended May 5, 2012 compared to $22.4 million last year, an increase of $5.7 million or 25.4 percent. Included in the fiscal 2012 adjustments for investments and other operations were dilution gains of $7.0 million compared to $3.3 million in the prior year. Adjusted net earnings for fiscal 2011 removes the net gain on the sale of Wajax of $76.2 million.

The following table adjusts reported net earnings for these and other items which are considered not indicative of underlying business operating performance.

($ in millions)	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings (investments and other operations)	$ 35.3	$ 103.3
Adjustments:		
Gain on sale of Wajax	–	(76.2)
Gain on disposal of assets	(0.2)	(1.1)
Post-retirement benefit amendment	–	(0.3)
Dilution gains	(7.0)	(3.3)
	(7.2)	(80.9)
Adjusted net earnings	$ 28.1	$ 22.4

QUARTERLY RESULTS OF OPERATIONS

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

	Fiscal 2012				Fiscal 2011			
($ in millions, except per share amounts)	Q4 (13 Weeks) May 5, 2012	Q3 (13 Weeks) Feb. 4, 2012	Q2 (13 Weeks) Nov. 5, 2011	Q1 (13 Weeks) Aug. 6, 2011	Q4 (14 Weeks) May 7, 2011	Q3 (13 Weeks) Jan. 29, 2011	Q2 (13 Weeks) Oct. 30, 2010	Q1 (13 Weeks) July 31, 2010
Sales	$ 4,073.8	$ 3,984.8	$ 4,036.3	$ 4,154.2	$ 4,149.8	$ 3,877.0	$ 3,904.1	$ 4,025.9
Operating income(1)	136.4	123.2	125.8	148.9	122.4	140.1	114.7	148.5
Net earnings(2)	92.1	80.0	78.1	89.2	82.5	88.9	142.9	86.3
Per share information, basic								
Net earnings(2)	$ 1.35	$ 1.18	$ 1.15	$ 1.31	$ 1.21	$ 1.31	$ 2.09	$ 1.26
Basic weighted average number of shares outstanding (in millions)(3)	67.9	67.9	67.9	67.9	67.9	67.9	68.2	68.5
Per share information, diluted								
Net earnings(2)	$ 1.35	$ 1.17	$ 1.15	$ 1.31	$ 1.21	$ 1.31	$ 2.09	$ 1.26
Diluted weighted average number of shares outstanding (in millions)(3)	68.0	68.0	68.0	68.0	68.0	68.0	68.3	68.5

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(2) Net of minority interest.

(3) The decrease in the weighted average number of shares outstanding since the first quarter of fiscal 2011 primarily reflects the repurchase for cancellation of 513,579 Non-Voting Class A shares under Empire's Normal Course Issuer Bid ("NCIB") during the second quarter of fiscal 2011.

For these most recent eight quarters, the Company's sales have continued to show improvement compared to the same quarter of the prior year after adjusting for the additional week of sales in the fourth quarter of fiscal 2011. These improvements continue to be mainly driven by Sobeys' adherence to a competitive pricing posture, increased retail selling square footage from new stores and enlargements, improved store level execution and product and services innovation. Sobeys' sales include fluctuations in quarter-to-quarter inflationary and deflationary market pressures. The Company does experience some seasonality, as evidenced in the results presented above, in particular during the summer months and over holidays.

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

Summary Table of Consolidated Financial Results for the Fourth Quarter

($ in millions, except per share amounts)	13 Weeks Ended May 5, 2012	% of Sales	14 Weeks Ended May 7, 2011	% of Sales
Sales	$ 4,073.8	100.00%	$ 4,149.8	100.00%
EBITDA(1)	224.2	5.50%	209.8	5.06%
Adjusted EBITDA(2)	221.5	5.44%	208.4	5.02%
Operating income(1)	136.4	3.35%	122.4	2.95%
Net earnings, net of minority interest	92.1	2.26%	82.5	1.99%
Adjusted net earnings, net of minority interest(2)	89.5	2.20%	81.3	1.96%
Basic earnings per share				
Net earnings, net of minority interest	$ 1.35		$ 1.21	
Adjusted net earnings, net of minority interest(2)	$ 1.32		$ 1.20	
Basic weighted average number of shares outstanding (in millions)	67.9		67.9	
Diluted earnings per share				
Net earnings, net of minority interest	$ 1.35		$ 1.21	
Adjusted net earnings, net of minority interest(2)	$ 1.32		$ 1.20	
Diluted weighted average number of shares outstanding (in millions)	68.0		68.0	

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

(2) Excludes items which are considered not indicative of underlying business operating performance.

Sales

Consolidated sales for the fourth quarter of fiscal 2012 were $4.07 billion compared to $4.15 billion last year, a $76.0 million or 1.8 percent decline. Sales contributed by the food retailing segment equalled $4.02 billion compared to $4.10 billion in fiscal 2011. Excluding the impact of the additional week of sales in fiscal 2011 and the impact of the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012, consolidated sales increased $106.6 million or 2.8 percent. Sobeys' same-store sales increased 0.7 percent during the fourth quarter of fiscal 2012.

For the 13 weeks ended May 5, 2012, Sobeys reported sales of $4.02 billion, a decrease of $83.3 million or 2.0 percent from the $4.10 billion recorded last year. The fourth quarter of fiscal 2011 contained 14 weeks of operations for Sobeys compared to 13 weeks in fiscal 2012, which accounted for $313.6 million in sales. Excluding the impact of the additional week of sales in fiscal 2011 and the impact of sales resulting from the acquisition of 236 retail gas locations and related convenience store operations in the fourth quarter of fiscal 2012 of $131.0 million, Sobeys' fourth quarter sales increased $99.3 million or 2.6 percent. The additional growth in Sobeys' fourth quarter sales was a direct result of continued increased retail selling square footage from new stores and enlargements, coupled with the continued implementation of sales and merchandising initiatives, improved consistency of store level execution and product and services innovation.

The following table shows a reconciliation of fourth quarter sales recorded by Sobeys.

($ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	($) Change	(%) Change
Sales (recorded by Sobeys)	$ 4,015.3	$ 4,098.6	$ (83.3)	(2.0%)
Adjustments:				
Impact of acquisition of 236 retail gas locations and related convenience store operations in fiscal 2012	(131.0)	–	(131.0)	
Impact of 14th week of sales in fiscal 2011	–	(313.6)	313.6	
	(131.0)	(313.6)	182.6	
Adjusted sales	$ 3,884.3	$ 3,785.0	$ 99.3	2.6%

Investments and other operations' sales for the fourth quarter of fiscal 2012 equalled $50.6 million versus $47.2 million in fiscal 2011, an increase of $3.4 million or 7.2 percent. The increase primarily relates to higher sales recorded by Empire Theatres as a result of higher attendance and concession revenues during the quarter.

EBITDA

Consolidated EBITDA in the fourth quarter of fiscal 2012 was $224.2 million compared to $209.8 million last year, an increase of $14.4 million or 6.9 percent. EBITDA margin increased 44 basis points to 5.50 percent in the fourth quarter of fiscal 2012 from 5.06 percent last year.

The contributors to the change in consolidated EBITDA from the fourth quarter last year were as follows:

- Sobeys contributed EBITDA to Empire of $203.7 million versus $193.5 million in the fourth quarter of fiscal 2011, an increase of $10.2 million or 5.3 percent. The fourth quarter of fiscal 2011 included an additional week of operations at Sobeys.
- Investments and other operations contributed EBITDA of $20.5 million in fiscal 2012 compared to $16.3 million last year, an increase of $4.2 million or 25.8 percent.

Adjusted EBITDA for the fourth quarter of fiscal 2012 was $221.5 million (5.44 percent of sales) versus $208.4 million (5.02 percent of sales) last year. Included in EBITDA for the fourth quarter of fiscal 2012 were gains on the sale of assets of $5.1 million (fiscal 2011 – $0.5 million) and Sobeys' organizational realignment costs of $2.8 million (fiscal 2011 – $nil). These and other items which are considered not indicative of underlying business operating performance are outlined in the table below.

($ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011
EBITDA (consolidated)[1]	$ 224.2	$ 209.8
Adjustments:		
Gain on disposal of assets	(5.1)	(0.5)
Sobeys' severance and store closure costs	–	0.2
Sobeys' organizational realignment costs	2.8	–
Dilution gains	(0.4)	(1.1)
	(2.7)	(1.4)
Adjusted EBITDA	$ 221.5	$ 208.4

(1) Certain balances have been reclassified for changes to comparative figures (see Note 32 to the Company's fiscal 2012 audited annual consolidated financial statements).

Operating Income

The Company reported operating income of $136.4 million for the 13 weeks ended May 5, 2012, compared to $122.4 million for the 14 weeks ended May 7, 2011. The increase in operating income of $14.0 million or 11.4 percent is a result of a higher operating income contribution from the food retailing segment of $8.7 million or 7.8 percent, along with a higher contribution from investments and other operations of $5.3 million or 47.7 percent.

- Equity earnings from the Company's investment in Crombie REIT decreased $0.2 million to $4.9 million in the fourth quarter of fiscal 2012 compared to the prior year.
- Real estate partnerships (Genstar) contributed equity earnings of $13.2 million in the fourth quarter, down $4.5 million from the fourth quarter of fiscal 2011.
- Other operations, net of corporate expenses, contributed operating income of $(1.7) million versus $(11.7) million in the fourth quarter of the prior year. Included in other operations, net of corporate expenses, was an impairment charge related to an investment of $1.1 million (fiscal 2011 – $9.6 million), dilution gains of $0.4 million (fiscal 2011 – $1.0 million) and a gain on the disposal of assets of $0.2 million (fiscal 2011 – $nil).

Finance Costs

Consolidated finance costs, net of finance income, in the fourth quarter of fiscal 2012 equalled $14.3 million versus $19.0 million last year. The $4.7 million decrease is primarily a result of lower interest expense of $3.5 million from lower average consolidated funded debt levels and lower net pension finance costs of $0.4 million.

Income Taxes

The effective income tax rate for the 13 weeks ended May 5, 2012 was 21.3 percent versus 17.5 percent in fiscal 2011. The increase in the effective income tax rate is primarily due to the timing of the realization of tax benefits in the fourth quarter of fiscal 2011 compared to the same period in the current year.

Net Earnings

Consolidated net earnings, net of minority interest, for the 13 weeks ended May 5, 2012 were $92.1 million ($1.35 per share) compared to $82.5 million ($1.21 per share) in fiscal 2011, an increase of $9.6 million or 11.6 percent. The increase is primarily related to the increase in operating income, as discussed, and lower finance costs, net of finance income, partially offset by higher income taxes.

Net earnings in the fourth quarter of fiscal 2011 were favourably impacted by a 14th week of operating results by Sobeys, as discussed. Management calculates that the additional week of operations from Sobeys positively impacted fourth quarter fiscal 2011 net earnings by approximately $6.3 million.

Adjusted Net Earnings

The table below adjusts fiscal 2012 and fiscal 2011 reported fourth quarter net earnings, net of minority interest, for items which are considered not indicative of underlying business operating performance.

($ in millions, except per share amounts, net of tax)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011
Net earnings, net of minority interest	$ 92.1	$ 82.5
Adjustments:		
Gain on disposal of assets	(4.3)	(0.5)
Sobeys' severance and store closure costs	–	0.1
Sobeys' organizational realignment costs	2.0	–
Dilution gains	(0.3)	(0.8)
	(2.6)	(1.2)
Adjusted net earnings, net of minority interest	$ 89.5	$ 81.3
Adjusted net earnings, net of minority interest, by division:		
Food retailing	$ 79.1	$ 75.5
Investments and other operations	10.4	5.8
Adjusted net earnings, net of minority interest	$ 89.5	$ 81.3
Adjusted EPS (fully diluted)	$ 1.32	$ 1.20

For the 13 weeks ended May 5, 2012, excluding the impact of the above-noted items, Empire recorded adjusted net earnings, net of minority interest, of $89.5 million ($1.32 per share) compared to $81.3 million ($1.20 per share) recorded in the 14 weeks ended May 7, 2011.

As previously mentioned, Sobeys had an additional week of operations in fiscal 2011, which management calculates to have positively impacted net earnings by approximately $6.3 million. Adjusting for the additional week of operations, adjusted net earnings, net of minority interest, on a comparable 13-week basis in fiscal 2011 would have been $75.0 million ($1.10 per share).

CONSOLIDATED FINANCIAL CONDITION

Capital Structure and Key Financial Condition Measures

The Company's overall financial condition has improved since the start of the fiscal year as evidenced by the capital structure and key financial condition measures presented in the table below.

($ in millions, except per share and ratio calculations)	May 5, 2012	May 7, 2011	May 1, 2010[(1)]
Shareholders' equity, net of minority interest	$ 3,396.3	$ 3,162.1	$ 2,952.4
Book value per common share	$ 49.98	$ 46.48	$ 43.07
Bank indebtedness	$ 4.4	$ –	$ 17.8
Long-term debt, including current portion[(2)]	$ 1,126.4	$ 1,152.4	$ 1,208.4
Funded debt to total capital	25.0%	26.7%	29.3%
Net funded debt to net total capital ratio	15.4%	14.5%	21.8%
Funded debt to EBITDA	1.3x	1.3x	1.5x
EBITDA to interest expense	14.4x	11.9x	11.3x
Total assets	$ 6,913.1	$ 6,518.6	$ 6,248.3

(1) Fiscal 2010 reflects CGAAP and has not been restated for IFRS.
(2) Includes liabilities relating to assets held for sale.

See the Non-GAAP Financial Measures section in this MD&A for definitions of funded debt, net funded debt, total capital, net total capital, interest expense and EBITDA.

Shareholders' Equity

Book value per common share was $49.98 at May 5, 2012 compared to $46.48 at May 7, 2011. The 7.5 percent increase in book value per common share in the current fiscal year largely reflects the Company's earnings growth, as discussed.

The Company's share capital on May 5, 2012 consisted of:

	Authorized Number of Shares	Issued and Outstanding Number of Shares	$ Millions
2002 Preferred shares, par value of $25 each, issuable in series	991,980,000	–	$ –
Non-Voting Class A shares, without par value	257,044,056	33,687,747	311.7
Class B common shares, without par value, voting	40,800,000	34,260,763	7.6
			$ 319.3

There were 33,687,747 Non-Voting Class A and 34,260,763 Class B common shares outstanding at May 5, 2012 for a total of 67,948,510 shares outstanding. This is unchanged from the previous fiscal year-end.

During fiscal 2012, 73,247 options (fiscal 2011 – 150,464 options) were issued under Empire's long-term incentive plan. The options issued in fiscal 2012 allow the holder to purchase Non-Voting Class A shares at $54.40 per share (fiscal 2011 – $51.99 per share). Empire had 638,818 options outstanding at May 5, 2012 compared to 565,571 options outstanding at May 7, 2011. There were no options exercised during fiscal 2012 compared to 18,102 options exercised in fiscal 2011.

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

	Fiscal 2012		Fiscal 2011	
	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Balance, beginning of year	565,571	$ 45.55	433,209	$ 43.22
Granted	73,247	54.40	150,464	51.99
Exercised	–	–	(18,102)	43.12
Balance, end of year	638,818	$ 46.57	565,571	$ 45.55
Stock options exercisable, end of year	329,050		187,658	

The 638,818 stock options outstanding as at the fiscal year ended May 5, 2012 (May 7, 2011 – 565,571 stock options) represents 0.9 percent (May 7, 2011 – 0.8 percent) of the outstanding Non-Voting Class A and Class B common shares.

During the third quarter of fiscal 2012, the Company redeemed all of its 164,900 Series 2 Preferred Shares outstanding in accordance with their terms. The Series 2 Preferred Shares were redeemed at a price of $25 per share plus an amount equal to all dividends accrued and unpaid to January 31, 2012. This compares to 3,100 Series 2 Preferred Shares purchased for cancellation for $0.1 million during fiscal 2011.

As at June 28, 2012, the Company had Non-Voting Class A and Class B common shares outstanding of 33,687,747 and 34,260,763, respectively, as well as 638,818 options to acquire in aggregate 638,818 Non-Voting Class A shares.

Dividends paid to Non-Voting Class A and Class B common shareholders amounted to $61.1 million in fiscal 2012 ($0.90 per share) versus $54.4 million ($0.80 per share) in fiscal 2011.

Liabilities

Historically, Empire has financed a significant portion of its assets through the use of long-term debt. Long-term assets are generally financed with fixed rate, long-term debt, thereby reducing both interest rate and refinance risk. Total long-term debt (including the current portion of long-term debt) at May 5, 2012 was $1,126.4 million, representing 99.6 percent of Empire's total funded debt of $1,130.8 million.

The long-term debt is segmented as follows:

Long-term debt (including current portion) ($ in millions)	May 5, 2012	May 7, 2011	May 2, 2010[(1)]
Food retailing	$ 975.6	$ 999.3	$ 856.3
Investments and other operations	150.8	153.1	344.1
Total	$ 1,126.4	$ 1,152.4	$ 1,200.4

(1) May 2, 2010 reflects the opening balance sheet date under IFRS.

Consolidated funded debt at May 5, 2012 of $1,130.8 million decreased $21.6 million from the $1,152.4 million reported at the end of fiscal 2011 on May 7, 2011. The decrease in funded debt from fiscal 2011 was due to a $23.7 million decline in funded debt at Sobeys, partially offset by a $2.1 million increase in funded debt in investments and other operations.

The ratio of funded debt to total capital has improved 1.7 percentage points to 25.0 percent from 26.7 percent at the end of fiscal 2011 as a result of higher equity levels due to growth in retained earnings and lower funded debt levels, as mentioned.

On February 14, 2012, Sobeys entered into an amended and restated credit agreement. The agreement provides for an unsecured revolving term credit facility of $450.0 million and establishes a $200.0 million unsecured non-revolving term credit facility resulting in total authorized credit facilities of $650.0 million. The revolving term credit facility matures on February 14, 2016 and the non-revolving term credit facility matures on July 23, 2012. Interest payable on both facilities fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or London InterBank Offered Rate.

For additional disclosure on Empire's bank indebtedness and long-term debt, see Notes 13 and 15 to the Company's audited annual consolidated financial statements for fiscal 2012.

On September 14, 2009, Dominion Bond Rating Service ("DBRS") upgraded Sobeys' credit rating from BBB (low) with a positive trend to BBB with a stable trend. On January 12, 2010, Standard and Poor's ("S&P") upgraded its credit rating on Sobeys from BB+ with a positive trend to BBB- with a stable trend. On December 1, 2011, S&P reaffirmed its credit rating on Sobeys at BBB– with a stable trend.

Empire's EBITDA to interest expense for the 52 weeks ended May 5, 2012 was 14.4 times, up from 11.9 times recorded for the 53 weeks ended May 7, 2011. The increase over fiscal 2011 is primarily due to a decline in interest expense of 15.9 percent accompanied by an increase in EBITDA of 1.6 percent.

Financial Instruments

As part of Empire's risk management strategy, the Company actively monitors its exposures to various financial risks including interest rate risk, foreign exchange price risk and commodity price risk. From time to time, Empire or one of its subsidiaries will use a financial instrument for the purpose of mitigating its exposure to one or more types of financial risk. Empire and its subsidiaries do not use financial instruments for speculative purposes. The Company's use of these instruments has not had a material impact on consolidated earnings for the 13 and 52 weeks ended May 5, 2012 or for the comparative periods in fiscal 2011.

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

In-Place Financial Instruments

Empire utilizes interest rate instruments from time to time to prudently manage its exposure to interest rate volatility and also to fix future long-term debt maturities that are expected to be refinanced. At May 5, 2012, there was one interest rate hedge in place with a fair value of $(1.9) million. Sensitivity analysis has been prepared to determine the impact of a change in the underlying forward rate curves on the fair values reported as of May 5, 2012. A parallel shift up/(down) in the underlying forward rate curve of 0.25 percent would impact the fair value of the swaps by plus/(minus) $0.1 million and impact other comprehensive income by plus/(minus) $0.1 million.

In July 2008, Sobeys entered into a floating-for-floating currency swap with a fixed rate of $1.015 Canadian Dollar ("CAD")/ United States Dollar ("USD") to mitigate the currency risk associated with a USD denominated variable rate lease. The terms of the swap match the lease terms. As of May 5, 2012, Sobeys recognized a liability of $0.3 million relating to this instrument. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable foreign currency exchange rates would impact the fair value of the swap by plus/(minus) $0.8 million and would impact other comprehensive income by plus/(minus) $0.5 million.

To mitigate the currency risk associated with the Company's Euro purchases, Sobeys entered into forward currency contracts with staggered maturities to act as a hedge against the effect of changes in the value of the CAD relative to the Euro. As at May 5, 2012, Sobeys had recognized a liability of $0.6 million representing the fair value of Euro denominated forward currency contracts. Sobeys estimates that a 10.0 percent increase/(decrease) in applicable exchange rates would impact the fair value by plus/(minus) $1.0 million and other comprehensive income by plus/(minus) $0.7 million.

Fair Value Methodology

When a financial instrument is designated as a hedge for financial accounting purposes, it is classified as fair value through profit and loss on the balance sheets and recorded at fair value. The estimated fair values of the financial instruments as at May 5, 2012 were based on relevant market prices and information available at the reporting date. The Company determines the fair value of each financial instrument by reference to external and third-party quoted bid, ask, and mean prices, as appropriate, in an active market. In inactive markets, fair values are based on internal and external valuation models, such as discounted cash flows using market observed inputs. Fair values determined using valuation models require the use of assumptions to determine the amount and timing of forecasted future cash flows and discount rates. The Company primarily uses external market inputs, including factors such as interest yield curves and forward exchange rates. Changes in interest rates and exchange rates, along with other factors, may cause the fair value amounts to change in subsequent periods. The fair value of these financial instruments reflects the amount the Company would pay or receive if it were to settle the contracts at the reporting date.

For additional disclosure on Empire's use of financial instruments, see Notes 3 and 26 to the Company's annual audited financial statements for the 52 weeks ended May 5, 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains the following sources of liquidity:

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

At May 5, 2012, consolidated cash and cash equivalents was $510.2 million versus $615.9 million on May 7, 2011.

At the end of the fourth quarter of fiscal 2012, on a non-consolidated basis, Empire directly maintained an authorized bank line for operating, general and corporate purposes of $450.0 million, of which approximately $129.3 million or 28.7 percent was utilized. During the second quarter, at the non-consolidated level, Empire extended the term of its authorized bank line for one year to a maturity date of June 30, 2014. On a consolidated basis, Empire's authorized bank credit facilities exceeded borrowings by $737.4 million at May 5, 2012.

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

Empire and its subsidiaries have provided covenants to its lenders in support of various financing facilities. All covenants were complied with for the 52 weeks ended May 5, 2012 and for the fiscal year ended May 7, 2011.

The following table highlights major cash flow components for the 13 and 52 weeks ended May 5, 2012 compared to the 14 and 53 weeks ended May 7, 2011.

($ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Net earnings	$ 96.1	$ 85.3	$ 352.1	$ 409.6
Non-cash and other cash items	118.3	149.5	507.5	485.2
Net change in non-cash working capital	179.2	125.0	86.2	(7.2)
Income taxes paid, net	(22.7)	(14.4)	(131.1)	(124.8)
Dividends paid, preferred shares	–	–	(0.1)	(0.1)
Cash flows from operating activities	370.9	345.4	814.6	762.7
Cash flows (used in) investing activities	(429.1)	(153.4)	(768.3)	(339.5)
Cash flows from (used in) financing activities	23.8	(57.0)	(152.0)	(204.6)
(Decrease) increase in cash and cash equivalents	$ (34.4)	$ 135.0	$ (105.7)	$ 218.6

Operations

The fourth quarter of fiscal 2012 generated cash flows from operating activities of $370.9 million compared to $345.4 million in the comparable period last year. The $25.5 million increase is attributed to an increase in the net change in non-cash working capital of $54.2 million and higher net earnings of $10.8 million, partially offset by a decrease in non-cash and other cash items of $31.2 million and an increase in income taxes paid of $8.3 million.

The 52 weeks ended May 5, 2012 generated cash flows from operating activities of $814.6 million compared to $762.7 million in the prior fiscal year. The increase of $51.9 million is attributed to an increase in the net change in non-cash working capital of $93.4 million and an increase in non-cash and other cash items of $22.3 million, partially offset by a decline in net earnings of $57.5 million and an increase in income taxes paid of $6.3 million.

The table below presents non-cash working capital changes on a quarter-over-quarter basis.

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

($ in millions)	May 5, 2012	Feb 4, 2012	13 Weeks Ended May 5, 2012 Increase (Decrease) in Cash Flows	14 Weeks Ended May 7, 2011 Increase (Decrease) in Cash Flows
Receivables	$ 362.0	$ 329.9	$ (32.1)	$ 13.9
Inventories	825.3	850.5	25.2	11.7
Prepaid expenses	77.6	71.3	(6.3)	(29.1)
Accounts payable and accrued liabilities	(1,729.8)	(1,541.4)	188.4	147.2
Provisions	(30.1)	(26.9)	3.2	(6.9)
Impact of reclassifications on working capital(1)	(0.8)	–	0.8	(11.8)
Total	$ (495.8)	$ (316.6)	$ 179.2	$ 125.0

(1) Reclassifications primarily related to business acquisitions.

The net change in non-cash working capital of $179.2 million in the fourth quarter was largely due to an increase in accounts payable and accrued liabilities of $188.4 million and a decrease in inventories of $25.2 million. These were partially offset by an increase in receivables of $32.1 million and an increase in prepaid expenses of $6.3 million. The decrease in inventories and increase in accounts payable and accrued liabilities compared to the third quarter of fiscal 2012 are primarily due to the timing of purchases and their associated payment.

Investment

Cash used in investing activities of $429.1 million in the fourth quarter increased $275.7 million compared to cash used in investing activities of $153.4 million in the same period last year. The increase was primarily the result of: (i) an increase in cash used to fund business acquisitions of $218.9 million, primarily relating to Sobeys' acquisition of 236 retail gas locations and related convenience store operations from Shell Canada, as discussed; (ii) an increase in cash used to fund a net increase in investments of $51.9 million; (iii) an increase in property, equipment and investment property purchases of $7.5 million; and (iv) an increase in additions to intangibles of $3.7 million. These amounts were partially offset by an increase in the proceeds on disposal of property, equipment and investment property of $8.2 million.

Consolidated purchases of property, equipment and investment properties totalled $181.5 million in the fourth quarter of fiscal 2012 compared to $174.0 million in the fourth quarter last year. Proceeds on the disposal of property, equipment and investment properties increased to $25.0 million in the fourth quarter of fiscal 2012 from $16.8 million in the fourth quarter last year.

For the 52 weeks ended May 5, 2012, cash used in investing activities was $768.3 million, an increase of $428.8 million from cash used in investing activities of $339.5 million last year. The increase was primarily the result of: (i) an increase in cash used to fund business acquisitions of $230.7 million, primarily relating to Sobeys' acquisition of 236 retail gas locations and related convenience store operations from Shell Canada, as discussed; (ii) $115.3 million in net proceeds from the sale of Wajax in the prior year; (iii) an increase in cash used to fund a net increase in investments of $45.1 million; (iv) an increase in the purchase of property, equipment and investment property of $37.1 million; (v) an increase in cash used in other assets and other long-term liabilities of $15.5 million; (vi) a decrease in cash generated from loans and other receivables of $12.9 million; and (vii) a decrease in minority interest of $13.4 million compared to $7.4 million in the prior year. Partially offsetting these amounts were: (i) an increase in proceeds on disposal of property, equipment and investment property of $27.7 million; and (ii) a decrease in additions to intangibles of $5.1 million.

For the 52 weeks ended May 5, 2012, consolidated purchases of property, equipment and investment properties totalled $589.5 million compared to $552.4 million last year. Proceeds on the disposal of property, equipment and investment properties increased $27.7 million from the prior fiscal year to $196.0 million in the 52 weeks ended May 5, 2012. Fiscal 2012 includes proceeds of $123.9 million from the sale of nine properties to Crombie REIT, seven of which were leased back. In addition, the Company sold its 50 percent interest in two properties to a third-party for $14.6 million during the first quarter of fiscal 2012.

The table below outlines the total number of corporate and franchised stores Sobeys invested in during the 13 and 52 weeks ended May 5, 2012 compared to 14 and 53 weeks ended May 7, 2011:

Sobeys' Corporate and Franchised Store Construction Activity

# of stores	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Opened/acquired/relocated	9	15	45	44
Acquisition of 236 retail gas locations and related convenience store operations	236	–	236	–
Expanded	4	4	13	12
Rebannered/redeveloped	16	24	30	68
Closed	10	22	44	39

The following table shows Sobeys' square footage changes for the 13 and 52 weeks ended May 5, 2012 by type:

Sobeys' Square Footage Changes

Square feet (in thousands)	13 weeks ended May 5, 2012	52 weeks ended May 5, 2012
Opened	188	780
Relocated	17	17
Acquired	242	274
Expanded	33	97
Closed	(190)	(500)
Net change	290	668

At May 5, 2012, Sobeys' square footage totalled 29.3 million square feet, a 2.1 percent increase over the 28.7 million square feet operated at the end of the fourth quarter last year.

Financing

Financing activities during the fourth quarter generated $23.8 million of cash compared to $57.0 million of cash used in the same quarter last year. The increase in cash of $80.8 million from financing activities is primarily the result of: (i) a decrease in the repayment of long-term debt of $34.0 million; (ii) an increase in the issuance of long-term debt of $32.7 million; (iii) a decrease in interest paid of $12.5 million; and (iv) an increase in bank indebtedness of $3.4 million. Partially offsetting these was an increase in dividends paid on common shares of $1.8 million.

During the 52 weeks ended May 5, 2012, financing activities used $152.0 million of cash compared to $204.6 million of cash used in fiscal 2011. The decrease of $52.6 million is primarily the result of: (i) a decrease in the repayment of long-term debt of $136.4 million; (ii) a decrease in the repurchase of Non-Voting Class A shares of $27.6 million; (iii) an increase in bank indebtedness of $8.5 million; and (iv) a decrease in interest paid of $6.1 million. Partially offsetting these sources of cash were: (i) a decrease in the issuance of long-term debt of $115.3 million; (ii) an increase in dividends paid of $6.7 million; and (iii) an increase in the redemption of preferred shares of $4.0 million.

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

Business Acquisition

On March 15, 2012, Sobeys acquired 236 retail gas locations and related convenience store operations in Québec and Atlantic Canada from Shell Canada for an amount of $214.9 million. The network acquired includes corporate owned and dealer operated locations and is expected to have annual fuel volumes in excess of one billion litres. The acquisition of these retail gas locations complements Sobeys' convenience store operations.

The total consideration of $214.9 million was paid in cash. Acquisition costs of $3.9 million relating to external legal, consulting, due diligence and other closing costs were incurred and have been included in selling and administrative expenses in the consolidated statements of earnings.

The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

($ in millions)	
Inventories	$ 8.0
Property and equipment	138.0
Intangibles	22.3
Provisions	(22.6)
Other assets and liabilities	5.2
Total identifiable net assets	$ 150.9
Excess consideration paid over identifiable net assets acquired	$ 64.0

The fair value of the identifiable net assets and goodwill have been determined provisionally and are subject to adjustment pending the finalization of the valuations and related accounting.

Guarantees and Commitments

Guarantees

Franchise Affiliates

Sobeys has a guarantee contract under the terms of which, should franchise affiliates be unable to fulfill their lease obligations, Sobeys would be required to fund the greater of $7.0 million or 9.9 percent (fiscal 2011 – $7.0 million or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 5, 2012, the amount of the guarantee was $7.0 million (fiscal 2011 – $7.0 million).

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

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract, should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of $6.0 million or 10.0 percent (fiscal 2011 – $4.0 million or 10.0 percent) of the authorized and outstanding obligation annually. Under the terms of the contract, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favourable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of SPEs. As at May 5, 2012, the amount of the guarantee was $6.0 million (fiscal 2011 – $4.2 million).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2013 is approximately $23.5 million. The guaranteed lease commitments over the next five years are:

($ in millions)	Third-Parties
2013	$ 23.5
2014	3.7
2015	1.4
2016	–
2017	–
Thereafter	–

Commitments

Long-Term Debt

Principal debt retirement in each of the next five fiscal years is as follows:

($ in millions)	
2013	$ 227.4
2014	52.9
2015	154.8
2016	19.0
2017	10.4
Thereafter	631.9

Finance Leases

Finance lease liabilities are payable as follows:

($ in millions)	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
2013	$ 11.5	$ 1.7	$ 9.8
2014	8.3	1.2	7.1
2015	4.4	0.9	3.5
2016	3.5	0.7	2.8
2017	3.6	0.5	3.1
Thereafter	10.8	4.4	6.4
Total	$ 42.1	$ 9.4	$ 32.7

During fiscal 2012, the Company increased its finance lease obligation by $4.2 million (fiscal 2011 – $5.4 million) with a similar increase in assets under finance leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

Operating Leases, as Lessee

The Company leases various retail stores, distribution centers, theatres, offices and equipment under non-cancellable operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is payable.

The total net, future minimum rent payable under the Company's operating leases as of May 5, 2012 is approximately $2,750.2 million. This reflects a gross lease obligation of $3,595.0 million reduced by expected sub-lease income of $844.8 million. The net commitments over the next five fiscal years are:

	Third-Parties		Related-Parties	
($ in millions)	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2013	$ 220.0	$ 309.7	$ 58.6	$ 58.6
2014	207.4	290.6	53.0	53.0
2015	197.7	276.8	53.1	53.1
2016	185.8	258.5	52.6	52.6
2017	167.6	232.0	51.6	51.6
Thereafter	952.4	1,408.1	550.4	550.4

The Company recorded $411.6 million (fiscal 2011 – $399.1 million) as an expense for minimum lease payments for the year ended May 5, 2012 in the consolidated statements of earnings. The expense was offset by sub-lease income of $118.3 million (fiscal 2011 – $96.1 million), and a further $4.5 million (fiscal 2011 – $5.1 million) of expense was recognized for contingent rent.

Operating Leases, as Lessor

The Company also leases most investment properties, which are leased by the Company under operating leases. These leases have varying terms, escalation clauses, renewal options and basis on which contingent rent is receivable.

Rental income for the year ended May 5, 2012 was $41.7 million (fiscal 2011 – $38.3 million) and was included in sales in the consolidated statements of earnings. In addition, the Company recognized $1.5 million of contingent rent for the year ended May 5, 2012 (fiscal 2011 – $1.0 million).

The lease payments expected to be received over the next five years are:

($ in millions)	Third-Parties
2013	$ 12.8
2014	12.1
2015	11.0
2016	10.3
2017	9.5
Thereafter	47.3

Other

At May 5, 2012, the Company was contingently liable for letters of credit issued in the aggregate amount of $69.6 million (fiscal 2011 – $52.3 million).

Upon entering into the lease of its new Mississauga distribution centre in March 2000, Sobeys guaranteed to the landlord the performance by SERCA Foodservice Inc. of all of its obligations under the lease. The remaining term of the lease is eight years with an aggregate obligation of $25.6 million (fiscal 2011 – $28.6 million). At the time of the sale of assets of SERCA Foodservice Inc. to Sysco Corp., the lease of the Mississauga distribution centre was assigned to and assumed by the purchaser, and Sysco Corp. agreed to indemnify and hold Sobeys harmless from any liability it may incur pursuant to its guarantee.

Free Cash Flow

Free cash flow (see Non-GAAP Financial Measures section in this MD&A) is used to measure the change in the Company's cash available for additional investing, dividends and/or debt reduction. The following table reconciles free cash flow to GAAP cash flows used in operating activities for the 13 and 52 weeks ended May 5, 2012 and the 14 and 53 weeks ended May 7, 2011.

($ in millions)	13 Weeks Ended May 5, 2012	14 Weeks Ended May 7, 2011	52 Weeks Ended May 5, 2012	53 Weeks Ended May 7, 2011
Cash flow from operating activities	$ 370.9	$ 345.4	$ 814.6	$ 762.7
Less: property, equipment and investment property purchases	181.5	174.0	589.5	552.4
Free cash flow	$ 189.4	$ 171.4	$ 225.1	$ 210.3

Free cash flow generation in the fourth quarter of fiscal 2012 was $189.4 million compared to $171.4 million in the fourth quarter last year. This $18.0 million increase was due to a $25.5 million increase in cash flow from operations, partially offset by an increase in property, equipment and investment property purchases of $7.5 million. The $25.5 million increase in cash flow from operations is attributed to an increase in the net change in non-cash working capital of $54.2 million and higher net earnings of $10.8 million, partially offset by a decrease in non-cash and other cash items of $31.2 million and an increase in income taxes paid of $8.3 million.

For the 52 weeks ended May 5, 2012, free cash flow generation was $225.1 million compared to $210.3 million last year. This $14.8 million increase in free cash flow from fiscal 2011 was due to a $51.9 million increase in cash flow from operations, partially offset by a $37.1 million increase in property, equipment and investment property purchases. The increase of $51.9 million in cash flow from operations is attributed to an increase in the net change in non-cash working capital of $93.4 million and an increase in non-cash and other cash items of $22.3 million, partially offset by a decline in net earnings of $57.5 million and an increase in income taxes paid of $6.3 million.

CONTROLS AND ACCOUNTING POLICIES

Accounting Standards and Policies Adopted During Fiscal 2012

IFRS

The annual consolidated financial statements have been prepared in accordance with IFRS or GAAP as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual consolidated financial statements reported under IFRS and are for the 52 weeks ended May 5, 2012 with comparative financial information for the 53 weeks ended May 7, 2011 and IFRS 1, "First-Time Adoption of International Financial Reporting Standards" has been applied.

An explanation of how the transition to IFRS from CGAAP has affected the Company's reported consolidated balance sheets, consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of cash flows is provided in Note 33 to the annual consolidated financial statements for the 52 weeks ended May 5, 2012.

Future Changes in Accounting Policies

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) Financial Instruments: Disclosures

In October 2010, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures", which require increased disclosure for transactions involving the transfer of financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011.

(iii) Deferred Tax: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12, "Income Taxes", which introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2012.

(iv) Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The objective of IFRS 10 is to define principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. It replaces portions of IAS 27, "Consolidated and Separate Financial Statements", and supersedes Standing Interpretations Committee ("SIC") 12, "Consolidation – Special Purpose Entities", completely, and is effective for annual periods beginning on or after January 1, 2013.

(v) Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", which establishes principles for financial reporting by entities that have an interest in a joint arrangement. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures", and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, this IFRS establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are jointly controlled and is effective for annual periods beginning on or after January 1, 2013.

(vi) Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities", which outlines disclosure requirements for an entity that has interests in a subsidiary, a joint arrangement, an associate and an unconsolidated structured entity. IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows. It is effective for annual periods beginning on or after January 1, 2013.

(vii) Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, sets out in a single IFRS a framework for measuring fair value, and identifies required disclosures about fair value measurements. This IFRS is effective for annual periods beginning on or after January 1, 2013.

(viii) Employee Benefits

In June 2011, the IASB issued amendments to IAS 19, "Employee Benefits", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income, and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. The amendments are effective for annual periods beginning on or after January 1, 2013.

The Company is currently evaluating the impact of these new standards and amendments on its consolidated financial statements.

Critical Accounting Estimates

The preparation of consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Certain of these estimates require subjective or complex judgments by management that may be uncertain. Some of these items include the valuation of inventories, goodwill, employee future benefits, stock-based compensation valuation of asset-backed commercial paper, provisions, impairments, customer loyalty programs, useful lives of property and equipment and intangibles for purposes of depreciation and amortization, and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

Impairment of Non-Financial Assets

Goodwill and intangibles with indefinite useful lives are reviewed for impairment at least annually by assessing the recoverable amount of each cash generating unit or groups of cash generating units to which the goodwill or the indefinite life intangibles relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash generating units is less than the carrying amount an impairment loss is recognized immediately as selling and administrative expenses. Impairment losses related to goodwill cannot be reversed.

Long-lived tangible and intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit(s) to which the asset belongs. The Company has primarily determined a cash generating unit to be an individual store or theatre. Corporate assets, such as head offices and distribution centres, do not individually generate separate cash inflows and are therefore aggregated for testing with the locations they service. When the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount (or cash generating unit) is reduced to the recoverable amount. An impairment loss is recognized as selling and administrative expenses or cost of sales immediately in net earnings or loss.

Where an impairment loss subsequently reverses, other than related to goodwill, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate, but is limited to the carrying amount that would have been determined if no impairment loss had been recognized in prior periods. A reversal of impairment loss is recognized immediately in net earnings or loss.

In the process of measuring expected future cash flows, management makes assumptions about the future growth of profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets within subsequent financial years.

Pension Benefit Plans and Other Benefit Plans

The cost of the Company's pension benefits for defined contribution plans are expensed at the time active employees are compensated. The cost of defined benefit pension plans and other benefit plans is accrued based on actuarial valuations, which are determined using the projected unit credit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages, and expected growth rate of health care costs.

Current market values are used to value benefit plan assets. The obligation related to employee future benefits is measured using current market interest rates, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the obligation.

The impact of plan amendments is recognized as an expense and amortized on a straight-line basis over the average period until the benefits are vested. To the extent that increases in the obligation related to past service have vested immediately following the changes in the original plan, the Company recognizes past service cost immediately.

In measuring its defined benefit liability the Company will recognize all of its actuarial gains and losses immediately into other comprehensive income.

Income Taxes

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

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

Valuation of Inventories

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

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

Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability, if material.

Disclosure Controls and Procedures

Management of Empire, which includes the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that material information relating to Empire is made known to management by others, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed by the Company and its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. As at May 5, 2012, the CEO and CFO have evaluated the effectiveness of the Company's DC&P. Based on that evaluation, the CEO and CFO have concluded that Empire's DC&P was effective as at May 5, 2012, and that there were no material weaknesses relating to the design or operation of the DC&P.

Internal Control over Financial Reporting

Management of Empire, which includes the CEO and CFO, is responsible for establishing and maintaining Internal Control over Financial Reporting ("ICFR"), as that term is defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". The control framework management used to design and assess the effectiveness of ICFR is The Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission. As of May 5, 2012, the CEO and CFO have evaluated the effectiveness of Empire's ICFR. Based on that evaluation, the CEO and CFO have concluded that Empire's ICFR was effective as at May 5, 2012, and that there were no material weaknesses relating to the design or operation of the ICFR.

There have been no changes in Empire's ICFR during the period beginning on February 5, 2012 and ended on May 5, 2012 that have materially affected, or are reasonably likely to materially affect, Empire's ICFR.

RELATED-PARTY TRANSACTIONS

The Company rents premises from Crombie REIT, at amounts in management's opinion which approximate fair market value. Management has determined these amounts to be fair value due to the significant number of leases negotiated with third-parties in each market it operates. During the fiscal year 2012, the aggregate net payments under these leases, which are measured at exchange amount, were $67.5 million (fiscal 2011 – $61.7 million).

In addition, Crombie REIT provides administrative and management services to the Company. The charges incurred for administrative and management services are on a cost recovery basis. For the 52 weeks ended May 5, 2012, charges incurred for administrative and management services were $1.5 million (53 weeks ended May 7, 2011 – $1.9 million).

The Company has non-interest bearing notes payable to Crombie REIT in the amount of $3.2 million related to the subsidy payments to Crombie REIT pursuant to an omnibus subsidy agreement dated March 23, 2006 between certain subsidiaries of Crombie REIT and ECL Properties Limited.

The Company owns convertible unsecured subordinated debentures from Crombie REIT with a market value of $12.8 million (May 7, 2011 – $11.9 million). During the 52 weeks ended May 5, 2012, the Company received income related to these securities of $0.6 million (fiscal 2011 – $0.6 million).

During the year, fixed rate secured mortgages provided to Crombie REIT in the amount of $5.6 million were repaid in their entirety. During the 52 weeks ended May 5, 2012, the Company received interest income related to the secured mortgages of $0.2 million (53 weeks ended May 7, 2011 – $0.3 million).

On October 20, 2011, Crombie REIT closed a bought-deal public offering of units at a price of $12.85 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for $30.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). On March 29, 2012, Crombie REIT closed a bought-deal public offering of units at a price of $14.50 per unit. Concurrent with the public offering, a wholly-owned subsidiary of the Company subscribed for approximately $53.0 million of Class B limited partnership units (which are convertible on a one-for-one basis into units of Crombie REIT). As a result of the Company's subscriptions of Class B limited partnership units and the conversion of Crombie REIT debentures throughout the year, the Company's interest in Crombie REIT was reduced from 46.4 percent to 44.3 percent.

During fiscal 2012, the Company sold nine (fiscal 2011 – twelve) properties to Crombie REIT, seven (fiscal 2011 – twelve) of which were leased back. Cash consideration received for the properties was recorded at exchange amount of $123.9 million (fiscal 2011 – $104.0 million), resulting in a pre-tax gain of $12.4 million (fiscal 2011 – $12.2 million), which has been recognized in the consolidated statements of earnings. The Company acquired a property from Crombie REIT for $5.0 million (fiscal 2011 – $nil), which management believes is equal to the fair market value of the property. As the property was leased by the Company from Crombie REIT, an additional $2.0 million (fiscal 2011 – $nil) was paid for the cancellation of the lease and recognized in the consolidated statements of earnings, with total cash consideration paid of $7.0 million (fiscal 2011 – $nil).

On a fully diluted basis (assuming conversion of all outstanding convertible securities of Crombie REIT) the Company's interest in Crombie REIT would be approximately 40.7 percent.

SUBSEQUENT EVENT

On June 12, 2012, the Company agreed to purchase $24.0 million of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of $60.0 million. The Debentures have a maturity date of September 30, 2019. The Debentures have a coupon of 5.00 percent per annum and each $1,000 principal amount of Debenture is convertible into approximately 49.7512 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of $20.10 per unit.

EMPLOYEE FUTURE BENEFIT OBLIGATIONS

For the 52 weeks ended May 5, 2012, the Company contributed $10.7 million (fiscal 2011 – $6.1 million) to its registered defined benefit plans. The Company expects to contribute approximately $10.4 million in fiscal 2013 to these plans. The Company continues to assess the impact of the capital markets on its funding requirements.

DESIGNATION FOR ELIGIBLE DIVIDENDS

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

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

CONTINGENCIES

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

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

RISK MANAGEMENT

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

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

Competition

Empire's food retailing business, Sobeys, operates in a dynamic and competitive market. Other national and regional food distribution companies, along with non-traditional competitors, such as mass merchandisers and warehouse clubs, represent a competitive risk to Sobeys' ability to attract customers and operate profitably in its markets.

Sobeys maintains a strong national presence in the Canadian retail food and food distribution industry, operating in over 800 communities in Canada. The most significant risk to Sobeys is the potential for reduced revenues and profit margins as a result of increased competition. To mitigate this risk, Sobeys' strategy is to be geographically diversified with the benefits of national scale and regional management deployment, to be customer and market-driven, to be focused on superior execution, and to have efficient, cost-effective operations. Sobeys reduces its exposure to competitive or economic pressures in any one region of the country by operating in each region of Canada through a network of corporate, franchised and affiliated stores, and through servicing the needs of thousands of independent, wholesale accounts. Sobeys approaches the market with five distinct formats to meet a broader spectrum of needs of its customers in order to enhance profitability by region and target market.

Sobeys' real estate development operations and Empire, through its investment in Crombie REIT, compete with numerous other managers and owners of real estate properties in seeking tenants and new properties to acquire. The existence of competing managers and owners could affect their ability to: (i) acquire property in compliance with their investment criteria; (ii) lease space in their properties; and (iii) maximize rents charged and minimize concessions granted. Commercial property revenue is also dependent on the renewal of lease arrangements by key tenants. These factors could adversely affect sales and cash flows. To mitigate these risks, Sobeys and Crombie REIT maintain strategic relationships with developers to ensure an adequate supply of prospective attractive properties. In addition, Crombie REIT maintains strategic relationships with existing and potential tenants to help ensure high occupancy levels are maintained at each of its properties.

Continued growth of rental income is dependent on renewing expiring leases and locating new tenants to fill vacancies at market rental rates, thereby ensuring an attractive return on our investment. The success of the real estate portfolio is also subject to general economic conditions, the supply and demand for rental property in key markets served and the availability of attractive financing to expand the real estate portfolio where deemed prudent. To mitigate this risk, Crombie REIT and Sobeys utilize staggered lease maturities to ensure that there are not unusually large amounts of leasable space coming up for renewal in any given year.

Genstar faces competition from other residential land developers in securing attractive sites for new residential lot development. Although Genstar holds land for future development, it faces significant competition when looking to acquire new land for future development. To mitigate this risk, Genstar maintains a geographically diverse inventory of well located land for development to alleviate periods of intense competition for the acquisition of new land. In addition, Genstar management has intimate knowledge of the residential markets where Genstar operates and in markets where it seeks new land investments.

Financial

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

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

Liquidity Risk

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

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The majority of the Company's long-term debt is at fixed interest rates or hedged with interest rate swaps. At May 5, 2012, bank indebtedness and approximately 23.7 percent of the Company's long-term debt was exposed to interest rate risk due to floating rates.

Insurance

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

Human Resources

Empire is exposed to the risk of labour disruption in its operations. Labour disruptions pose a moderate operational risk as Sobeys operates an integrated network of 23 distribution centres across the country for the food retailing segment. Sobeys has good relations with its employees and unions and does not anticipate any material labour disruptions in fiscal 2013. However, Sobeys has stated that it will accept the short-term costs of a labour disruption to support a commitment to building and sustaining a competitive cost structure for the long term.

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

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

Business Continuity

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

Environmental Health and Safety

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

Any environmental site remediation is completed using appropriate, qualified internal and external resources and health and safety issues are proactively dealt with. The Board of Directors receives regular reports which review outstanding matters, identify new legislation and outline new programs being implemented across the Company to positively impact the environment and employee health and safety.

Sobeys' retail fuel locations operate underground storage tanks. Environmental contamination resulting from leaks or damages to these tanks is possible. To mitigate this environmental risk, Sobeys engages in several monitoring procedures, as well as risk assessment activities, to minimize potential environmental hazards.

These activities mitigate but do not eliminate the Company's environmental risk, and as such, along with the risk of changes to existing environmental protection regulatory requirements, there remains exposure for negative financial and operational impacts to the Company in future years.

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

Occupational Health and Safety

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

Food Safety and Security

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

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

Technology

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

Real Estate

The Company utilizes a capital allocation process which is focused on obtaining the most attractive real estate locations for its retail stores and theatres, as well as for its commercial property and residential development operations, with direct or indirect Company ownership being an important, but not overriding, consideration. Sobeys develops certain retail store locations on owned sites; however, the majority of its store development is done in conjunction with external developers. The availability of high potential new store sites and/or the ability to expand existing stores is therefore in large part contingent upon the successful negotiation of operating leases with these developers and Sobeys' ability to purchase these sites.

Legal, Taxation and Accounting

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

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

Operations

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

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

Supply Chain

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

Drug Regulation

Amendments to the regulation of generic prescription drug prices paid by provincial governments to pharmacies have been announced or are expected to be announced in Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia impacting in fiscal 2013 onward. As a result of these amendments, the cost of generic drugs for provincial drug plans will be reduced alongside the elimination of professional allowances paid to pharmacies by manufacturers in Ontario and British Columbia. These amendments will also lead to a reduction in the cost of generic drugs for out-of-pocket and private health plans. The Company will continue to identify opportunities to mitigate the risk of a negative impact on financial performance due to these risks.

Seasonality

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

Product Costs

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

Utility and Fuel Prices

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

Foreign Operations

Sobeys and Genstar have certain foreign operations. Sobeys' foreign operations are limited to a small number of produce brokerage operations based in the United States. Genstar's foreign operations are limited to a number of residential land developments in selected markets in the United States. These foreign operations are relatively small and are not considered material to Empire on a consolidated basis; as such, the Company does not have any material risks associated with foreign operations.

Foreign Currency

The Company conducts the majority of its operating business in CAD and its foreign exchange risk is mainly limited to currency fluctuations between the CAD, the Euro and the USD. USD purchases of product by the food retailing segment represent approximately three percent of Sobeys' total annual purchases with Euro purchases limited to specific contracts for capital expenditures. Sobeys has processes in place to use forward contracts with high quality counterparties to fix the exchange rate on some of its expected requirements for Euros and USD.

Ethical Business Conduct

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

Information Management

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

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

Capital Allocation

It is important that capital allocation decisions result in an appropriate return on capital. The Company has a number of strong mitigation strategies in place regarding the allocation of capital, including the Board review of significant capital allocation decisions. The Company has established prudent hurdle rates for capital investments that are evaluated through a prudent due diligence process.

Access to Capital

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

Economic Environment

Management continues to closely monitor economic conditions, including interest rates, inflation, employment rates and capital markets. Management believes that although a weakening economy has an impact on all businesses and industries, the Company has an operational and capital structure that is sufficient to meet its ongoing business requirements.

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

Dated: June 28, 2012
Stellarton, Nova Scotia, Canada