NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS**

May 7, 2011 ($ in millions, except per share amounts)

1 Summary of Significant Accounting Policies

Basis of Consolidation

Empire Company Limited (the "Company") is a diversified Canadian company whose key businesses include food retailing, real estate and corporate investment activities. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), and include the accounts of the Company, all subsidiary companies, including 100 percent owned Sobeys Inc. ("Sobeys") and certain enterprises considered variable interest entities ("VIEs") where control is achieved on a basis other than through ownership of a majority of voting rights. Investments in which the Company has significant influence are accounted for using the equity method. Investments in significant joint ventures are consolidated on a proportionate basis.

The Company's fiscal year ends on the first Saturday in May. As a result, the fiscal year is usually 52 weeks but results in a duration of 53 weeks every five to six years.

Changes in Accounting Policies

Adopted During Fiscal 2010

Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", which replaced existing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of adopting Section 3064, Emerging Issues Committee ("EIC") Abstract 27, "Revenues and Expenditures During the Pre-Operating Period", no longer applies. The Company implemented these requirements, in compliance with transitional provisions, effective for the first quarter of fiscal 2010 retrospectively with restatement of the comparative periods. The initial impact under the new standard as at May 3, 2009 was a decrease to prepaid expenses of $6.9, a decrease to other assets of $62.4, a decrease in property and equipment of $33.7, an increase to intangibles of $96.1, a decrease of future tax liabilities of $2.2 as well as a reduction of retained earnings of $4.7. For the year ended May 2, 2009, cost of sales, selling and administrative expenses decreased $9.4, depreciation and amortization expense increased $11.3 and income taxes decreased $0.7.

Financial instruments – disclosures

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

Future Changes in Accounting Policies

International financial reporting standards

On February 13, 2008, the Accounting Standards Board of Canada announced that GAAP for publicly accountable enterprises will be replaced by IFRS. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with retrospective adoption and restatement of the comparative fiscal year ended May 7, 2011. Accordingly, the conversion from GAAP to IFRS will be applicable to the Company's reporting for the first quarter of fiscal 2012 for which the current and comparative information will be prepared under IFRS.

The Company, with the assistance of its external advisors, launched an internal initiative to govern the conversion process and has been evaluating the impact of the conversion to IFRS on its financial statements. The transition of IFRS impacts accounting, financial reporting, internal control over financial reporting, information systems and business processes.

The Company has been transitioning to IFRS under a formal project governance structure, and has been providing regular progress reports to senior management and the audit committee. The Company has also completed a diagnostic impact assessment, which involved a review of the major differences between current GAAP and IFRS, as well as establishing an implementation guideline. In accordance with this guideline, the Company established a staff training program and has completed an analysis of the key decision areas, including analyzing the appropriate accounting policy selections from available IFRS options, and making recommendations on same.

The Company continues to assess the impact of the transition to IFRS and to review all of the proposed and ongoing projects of the International Accounting Standards Board to determine their impact on the Company.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash, treasury bills and guaranteed investments with a maturity less than 90 days at date of acquisition.

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a weighted average cost basis. Retail inventories are valued at the lower of cost and net realizable value. Cost is determined using a weighted average cost using either the standard cost method or a retail method. The retail method uses the anticipated selling price less normal profit margins, on a weighted average cost basis.

The cost of inventories is comprised of directly attributable costs and includes the purchase price plus other costs incurred in bringing the inventories to their present location and condition, such as freight. The cost is reduced by the value of rebates and allowances received from vendors. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to not be recoverable due to obsolescence, damage or permanent declines in selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Costs that do not contribute to bringing inventories to their present location and condition, such as storage and administrative overheads, are specifically excluded from the cost of inventories and are expensed in the period incurred (see Note 4).

Real estate inventory of residential properties are carried at the lower of cost or net realizable value. Estimated net realizable value is based upon the net sales proceeds anticipated in the normal course of business, less estimated costs to complete or improve the property to the condition used in determining the estimated selling price. Capitalized costs include the cost of land and the cost of services, such as roads, sewerage and water systems on land under development, carrying and other costs, net of any rental income. Carrying costs include an allocation of interest on debt and property taxes, but do not include any allocation of administrative overhead. Interest cost generally is not allocated to raw land holdings until development commences. The cost of land is generally pro-rated to each phase of a project on an acreage basis. Cost of land sold, including development costs, is allocated within each phase to saleable lots in proportion to anticipated revenues.

Long-Lived Assets

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the book value of the assets may not be recoverable, as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. Impaired assets are recorded at the lower of carrying and fair value, determined principally using discounted future cash flows expected from their use and eventual disposition, with the impairment loss charged to cost of sales, selling and administrative expenses.

Property and Equipment

Property and equipment is recorded at net book value, being original cost less accumulated depreciation and any writedowns for impairment.

Depreciation on real estate buildings is calculated using the straight-line method with reference to each property's book value, its estimated useful life (not exceeding 40 years) and its residual value. Deferred leasing costs are amortized over the terms of the related leases.

Depreciation of other property and equipment is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment, fixtures and vehicles	3 – 20 years
Buildings	10 – 40 years
Leasehold improvements	Lesser of lease term and 7 – 20 years

Assets to be disposed are classified as held for sale and are no longer depreciated. Assets held for sale are recognized at the lower of book value and fair value less cost of disposal.

The Company follows the full cost method of accounting for its exploration and development of petroleum and natural gas reserves. Costs initially capitalized are depleted and depreciated using the unit-of-production method based on production volumes, before royalties, in relation to the Company's share of estimated proved petroleum and natural gas reserves.

Capitalization of Costs

(a) Construction projects

Certain subsidiary companies capitalize interest during the construction period until the project opening date. The amount of interest capitalized to construction in progress in the current year was $1.3 (2010 – $0.6).

(b) Development properties and land held for future development

Interest, real estate taxes and other expenses are expensed, with the exception of property taxes which are capitalized during the construction period. Capitalization of all costs ceases when the development property is substantially complete and ready for productive use, at which time the properties are classified as commercial properties. No amounts were capitalized in fiscal 2011 ($nil in fiscal 2010).

Deferred Charges

Deferred store marketing costs, primarily comprised of major store renovation and expansion costs, are included with equipment, fixtures and vehicles as part of the Company's property and equipment balance sheet group.

Leases

Leases meeting certain criteria are accounted for as capital leases. The imputed interest is charged against income. If the lease contains a term that allows ownership to pass to the Company, or there is a bargain purchase option, the capitalized value is depreciated over the estimated useful life of the related asset. Otherwise, the capitalized value is depreciated on a straight-line basis over the lesser of the lease term and its estimated useful life. Capital lease obligations are included in the long-term debt of the Company and are reduced by rental payments net of imputed interest. All other leases are accounted for as operating leases.

Lease allowances and incentives are recorded as other long-term liabilities and amortized as a reduction of lease expense over the term of the lease. Real estate lease expense is amortized straight-line over the entire term of the lease including free rent periods related to store fixturing. A store fixturing period varies by store but is generally considered to be one month prior to the store opening.

Assets Held For Sale

Certain land and buildings have been listed for sale and reclassified as "Assets held for sale" in accordance with CICA Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations". These assets are expected to be sold within a twelve-month period and are no longer productive assets with no interest to develop them for future use. Assets held for sale are valued at the lower of book value and fair value less cost of disposal. Liabilities assumed upon sale of assets or debts to be repaid as part of a sale transaction are also classified as "Liabilities relating to assets held for sale".

Intangibles

Intangibles arise on the purchase of a new business, existing franchises, software and the acquisition of pharmacy prescription files. Amortization is recorded on limited life intangibles on a straight-line basis over the estimated useful life of the intangible as follows:

Brand names	10 years
Deferred purchase agreements	5 – 10 years
Franchise rights/agreements	10 years
Lease rights	5 – 10 years
Patient files	15 years
Software	3 – 7 years
Other	5 – 10 years

Goodwill and Intangibles with Indefinite Useful Lives

Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible and intangible assets acquired at the date of acquisition.

Goodwill and intangible assets with indefinite useful lives are not amortized but rather are subject to an annual impairment review or more frequently if circumstances exist that might indicate its value is impaired. Should the carrying value exceed the fair value of goodwill or intangible assets (e.g. trademarks), the carrying value will be written down to the fair value.

Financial Instruments

The Company is required to recognize and measure all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value. Loans and receivables, held to maturity financial assets and other financial liabilities are subsequently measured at cost or amortized cost. Derivatives and non-financial derivatives must be recorded at fair value on the consolidated balance sheets unless they are exempt from derivative treatment based upon expected purchase, sale or usage requirements.

The Company classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available-for-sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

The Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Loans and other receivables	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Derivative other assets and liabilities	Held for trading	Fair value
Non-derivative other assets	Held for trading	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Transaction costs other than those related to financial instruments classified as held for trading, which are expensed as incurred, are added to the fair value of the financial asset or financial liability on initial recognition and amortized using the effective interest method.

Guarantees

Obligations undertaken through issuance of a guarantee that meets the definition of a guarantee pursuant to Accounting Guideline ("AcG") 14, "Disclosure Guarantees", are recognized at fair value at inception with no subsequent re-measurement at fair value required unless the financial guarantee qualifies as a derivative.

Hedges

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange rates, variable interest rates and energy prices. For cash flow hedges, the effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. When a hedging instrument in a cash flow hedge expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in accumulated other comprehensive income relating to the hedge is carried forward until the hedged item is recognized in net earnings. When the hedged item ceases to exist as a result of its expiry or sale, or if an anticipated transaction is no longer expected to occur, the cumulative gain or loss in accumulated other comprehensive income is immediately reclassified to net earnings.

Financial derivatives assigned as part of a cash flow hedging relationship are classified as either an other asset or other liability as required based on their fair market value determination.

Significant derivatives include the following:

(1) Foreign currency forward contracts for the primary purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in foreign currencies. These contracts are designated as hedging instruments for accounting purposes. Accordingly, the effective portion of the change in the fair value of the forward contracts are accumulated in other comprehensive income until the variability in cash flows being hedged is recognized in earnings in future accounting periods.

(2) Electricity contracts to manage the cost of electricity designated as cash flow hedges of anticipated transactions. The portion of gain or loss on derivative instruments designated as cash flow hedges that are deferred in accumulated other comprehensive income is reclassified into other income/expense when the product containing the hedged item impacts earnings.

(3) Interest rate swaps designated as cash flow hedges to manage variable interest rates associated with some of the Company's debt portfolio. Hedge accounting treatment results in interest expense on the related debt being reflected at hedged rates rather than variable interest rates.

Customer Loyalty Programs

A Club Sobeys loyalty card program (the "Program") was launched during fiscal 2009. The Program allows members to earn points on their purchases in certain Sobeys stores. As well, a Club Sobeys credit card entitles the customer to earn points for their purchases on the credit card. Members can redeem these points, in accordance with the Program rewards schedule, for discounts on future grocery purchases, purchase products or services or elect to convert the points into Aeroplan miles which is a loyalty program run by a third party. When points are earned by Program members, the Company records an expense in its consolidated statements of earnings and establishes a liability for future redemptions by multiplying the number of points issued by the estimated cost per point. The Program liability is included in accounts payable and accrued liabilities on the Company's consolidated balance sheets. The actual cost of Program redemptions is charged against the liability account. During fiscal 2010, a loyalty card program, Club Thrifty Foods, was launched. It follows a similar point earning and redemption structure as the Club Sobeys loyalty card program.

Customer Loyalty Programs (continued)

The estimated cost per point is determined based on many factors, primarily related to the expected future redemption patterns and associated costs. The Company monitors, on an ongoing basis, trends in redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed and adjusts the estimated cost per point based upon expected future activity. Any difference in the cost per point is recognized in cost of sales, selling and administrative expenses in the Company's consolidated statements of earnings. To the extent that estimates differ from actual experience, the Program expense could be higher or lower. The Company continues to evaluate and revise certain assumptions used to calculate the Program liability, based on redemption experience and expected future activity.

An AIR MILES® reward program is also used by the Company. AIR MILES® are earned by certain Sobeys customers based on purchases in stores. The Company pays a per point fee under the terms of the agreement with AIR MILES®. The cost of this program is expensed as incurred as cost of sales, selling and administrative expenses in the consolidated statements of earnings.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes, under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future tax assets are recognized to the extent that it is more likely than not that they will be recovered. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the year that includes the date of enactment or substantive enactment.

Deferred Revenue

Deferred revenue consists of long-term supplier purchase agreements, rental revenue arising from the sale of subsidiaries and gains on sale leaseback transactions. Deferred revenue is being taken into income on a straight-line basis over the term of the related agreements and is included in other long-term liabilities.

Foreign Currency Translation

Assets and liabilities of self-sustaining foreign investments are translated at exchange rates in effect at the balance sheet date. The revenues and expenses are translated at average exchange rates for the year. Cumulative gains and losses on translation are shown in accumulated other comprehensive income.

Other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at each period end date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating earnings. Sales and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the period.

Revenue Recognition

Food sales are recognized at the point-of-sale. Sales include revenues from customers through corporate stores operated by the Company and consolidated VIEs, and revenue from sales to non-VIE franchised stores, affiliated stores and independent accounts. Revenue received from non-VIE franchised stores, affiliated stores and independent accounts is mainly derived from the sale of product. The Company also collects franchise fees under two types of arrangements. Franchise fees contractually due based on the dollar value of product shipped are recorded as revenue when the product is shipped. Franchise fees contractually due based on the franchisee's retail sales are recorded as revenue weekly upon invoicing based on the franchisee's retail sales.

Revenue from the sale of residential lots and development properties is recognized in the period in which the transaction occurs, provided the earnings process is completed and the collection of the proceeds is reasonably assured. As required under GAAP, any gains on sale of properties to Crombie REIT, which is accounted for using the equity method, are not included in net earnings. Gains are applied to reduce the carrying value of the Company's equity investment in Crombie REIT. Commercial real estate revenue is recognized in accordance with the lease agreements with tenants on a straight-line basis.

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 benefit 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 changes in plan amendments is amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members. For pension benefit plans, the actuarial gains and losses and the impact of changes in the actuarial basis in excess of 10 percent of the greater of the projected benefit obligation and the market value of assets are amortized on a straight-line basis over the EARSL of the active members. For the Company's Supplemental Executive Retirement Plan ("SERP"), the impact of changes in the plan provisions are amortized over five years.

Vendor Allowances

The Company receives allowances from certain vendors whose products are purchased for resale. Included in these vendor programs are allowances for volume purchases, exclusivity allowances, listing fees and other allowances. The Company recognizes these allowances as a reduction of cost of sales, selling and administrative expenses and related inventories in accordance with EIC 144, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor". Certain allowances from vendors are contingent on the Company achieving minimum purchase levels. These allowances are recognized when it is probable that the minimum purchase level will be met and the amount of allowance can be estimated. As of the year ended May 7, 2011, the Company has recognized $4.7 (2010 – $4.8) of allowances in income where it is probable that the minimum purchase level will be met and the amount of allowance can be estimated.

Use of 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 judgements 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, loyalty programs and income taxes. Changes to these estimates could materially impact the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from these estimates.

Earnings per Share

Earnings per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is determined based on the treasury stock method which assumes that all outstanding stock options with an exercise price below the average market price are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

2 Sale of Wajax Income Fund

On October 5, 2010, the Company sold its 27.5% ownership interest in Wajax Income Fund ("Wajax"). Details of the sale was as follows:

Net proceeds	$ 121.3
Book value	34.5
Capital gain before income taxes	86.8
Income taxes	6.7
Net capital gain	$ 80.1

3 Earnings per Share

Earnings applicable to common shares is comprised of the following:

	2011 (53 Weeks)	2010 (52 Weeks)
Operating earnings	$ 307.8	$ 284.5
Capital gains and other items, net of income taxes of $(0.4) (2010 – $(18.0))	61.7	17.4
Net earnings	369.5	301.9
Preferred share dividends	(0.1)	(0.1)
Earnings applicable to common shares	$ 369.4	$ 301.8

Included in income taxes of $(18.0) for the year ended May 1, 2010 is an income tax recovery of $17.0 (refer to Note 18).

Earnings per share is comprised of the following:

	2011	2010
Operating earnings	$ 4.52	$ 4.16
Net capital gains and other items	0.91	0.25
Basic earnings per share	$ 5.43	$ 4.41
Operating earnings	$ 4.51	$ 4.15
Net capital gains and other items	0.91	0.25
Diluted earnings per share	$ 5.42	$ 4.40

4 Inventories

The cost of inventories recognized as an expense during the year was $11,945.5 (2010 – $11,616.1). The Company has recorded $18.3 (2010 – $12.2) as an expense for the write-down of inventories below cost to net realizable value for inventories on hand as at May 7, 2011. There were no reversals of inventories written down previously (2010 – $nil).

5 Investments, at Equity

	May 7, 2011	May 1, 2010
Wajax	$ –	$ 30.8
Crombie REIT (46.4% interest)	(6.3)	8.4
U.S. residential real estate partnerships	33.1	17.6
	$ 26.8	$ 56.8

The Company's carrying value of its investment in Wajax was as follows:

	May 7, 2011	May 1, 2010
Balance, beginning of year	$ 30.8	$ 31.0
Equity earnings	8.7	9.2
Share of comprehensive loss	0.9	(0.2)
Distributions received	(5.9)	(9.2)
Sale of interest in Wajax	(34.5)	–
Balance, end of year	$ –	$ 30.8

5 Investments, at Equity (continued)

The Company's carrying value of its investment in Crombie REIT is as follows:

	May 7, 2011	May 1, 2010
Balance, beginning of year	$ 8.4	$ (19.7)
Equity earnings		
Continuing operations	18.7	18.6
Other expenses	–	(4.7)
Share of comprehensive income	2.7	11.8
Distributions received	(26.7)	(24.9)
Deferral of gains on sale of property	(33.1)	(2.7)
Interest acquired in Crombie REIT	20.5	30.0
Dilution gain	3.2	–
Balance, end of year	$ (6.3)	$ 8.4

On August 4, 2010, Crombie REIT closed a bought-deal public offering of units at a price of $11.05 per unit. In satisfaction of its pre-emptive right with respect to the public offering, the Company subscribed for $20.5 of Class B Units (which are convertible on a one-for-one basis into units of Crombie REIT). During the year, conversion of Crombie REIT debentures also resulted in the issuance of additional Crombie REIT units. Consequently the Company's interest in Crombie REIT was reduced from 47.4% to 46.4%.

6 Loans and Other Receivables

	May 7, 2011	May 1, 2010
Loans and mortgages receivable	$ 109.2	$ 110.5
Notes receivable and other	41.3	74.5
	150.5	185.0
Less amount due within one year	81.7	105.8
	$ 68.8	$ 79.2

Loans and Mortgages Receivable

Loans and mortgages receivable represent long-term financing to certain retail associates. These loans and mortgages are primarily secured by inventory, fixtures and equipment, bear various interest rates and have repayment terms up to ten years. The carrying amount of the loans and mortgages receivable approximates fair value based on the variable interest rates charged on the loans and the operating relationship of the associates with the Company.

7 Other Assets

	May 7, 2011	May 1, 2010
Accrued benefit asset *(Note 25)*	$ 61.2	$ 60.4
Asset-backed commercial paper	22.8	21.2
Restricted cash	17.1	10.6
Other	6.0	2.3
	$ 107.1	$ 94.5

8 Property and Equipment

			May 7, 2011
	Cost	Accumulated Depreciation	Net Book Value
Food segment			
Land	$ 235.6	$ –	$ 235.6
Land held for development	149.5	–	149.5
Buildings	959.7	275.7	684.0
Equipment, fixtures and vehicles	2,071.4	1,194.3	877.1
Leasehold improvements	494.3	247.8	246.5
Construction in progress	186.9	–	186.9
Assets under capital leases	121.8	77.3	44.5
	4,219.2	1,795.1	2,424.1
Real estate and other segments			
Land	5.2	–	5.2
Land held for development	10.5	–	10.5
Buildings	51.1	22.1	29.0
Equipment	91.4	53.7	37.7
Leasehold improvements	90.7	29.1	61.6
Construction in progress	6.6	–	6.6
Petroleum and natural gas costs	87.5	42.1	45.4
	343.0	147.0	196.0
Total	$ 4,562.2	$ 1,942.1	$ 2,620.1

			May 1, 2010
	Cost	Accumulated Depreciation	Net Book Value
Food segment			
Land	$ 263.4	$ –	$ 263.4
Land held for development	60.8	–	60.8
Buildings	959.9	260.0	699.9
Equipment, fixtures and vehicles	2,304.6	1,463.8	840.8
Leasehold improvements	530.5	312.0	218.5
Construction in progress	91.0	–	91.0
Assets under capital leases	119.0	65.1	53.9
	4,329.2	2,100.9	2,228.3
Real estate and other segments			
Land	6.5	–	6.5
Land held for development	57.6	–	57.6
Buildings	73.7	27.9	45.8
Equipment	84.7	47.3	37.4
Leasehold improvements	78.7	24.2	54.5
Construction in progress	69.5	–	69.5
Petroleum and natural gas costs	84.6	35.5	49.1
	455.3	134.9	320.4
Total	$ 4,784.5	$ 2,235.8	$ 2,548.7

9 Intangibles

			May 7, 2011
	Cost	Accumulated Amortization	Net Book Value
Brand names	$ 201.0	$ 11.2	$ 189.8
Deferred purchase agreements	62.1	19.6	42.5
Franchise rights/agreements	58.1	22.8	35.3
Lease rights	49.1	19.8	29.3
Loyalty programs	11.4	–	11.4
Patient files	32.3	10.1	22.2
Private labels	59.5	–	59.5
Software	105.2	53.6	51.6
Other	29.6	17.5	12.1
	$ 608.3	$ 154.6	$ 453.7

			May 1, 2010
	Cost	Accumulated Amortization	Net Book Value
Brand names	$ 201.0	$ 8.2	$ 192.8
Deferred purchase agreements	56.4	18.4	38.0
Franchise rights/agreements	57.9	18.6	39.3
Lease rights	45.0	18.9	26.1
Loyalty programs	11.4	–	11.4
Patient files	33.1	8.3	24.8
Private labels	59.5	–	59.5
Software	125.9	74.9	51.0
Other	26.6	14.5	12.1
	$ 616.8	$ 161.8	$ 455.0

Included in intangibles as at May 7, 2011 and May 1, 2010 are the following amounts with indefinite useful lives: Brand names – $172.8; Loyalty programs $11.4; and Private labels $59.5.

10 Bank Indebtedness

As security for certain bank loans, the Company has provided an assignment of certain marketable securities and, in certain subsidiaries and joint ventures, general assignments of receivables and leases, first floating charge debentures on assets and the assignment of proceeds of fire insurance policies.

11 Long-Term Debt

	May 7, 2011	May 1, 2010
First mortgage loans, weighted average interest rate 9.11%, due 2011 – 2023	$ 47.6	$ 65.7
Medium term notes, Series C, interest rate 7.16%, due February 26, 2018	100.0	100.0
Medium term notes, Series D, interest rate 6.06%, due October 29, 2035	175.0	175.0
Medium term notes, Series E, interest rate 5.79%, due October 6, 2036	125.0	125.0
Medium term notes, Series F, interest rate 6.64%, due June 7, 2040	150.0	–
Sinking fund debentures, weighted average interest rate 9.68%, due 2011 – 2016	40.8	48.2
Notes payable and other debt primarily at interest rates fluctuating with the prime rate	150.1	149.8
Credit facility, floating interest rate tied to bankers' acceptance rates, due June 30, 2013	118.0	294.5
Credit facility, floating interest rate tied to bankers' acceptance rates, due July 23, 2012	200.0	200.0
Unamortized transaction costs	(3.3)	(2.0)
Capital lease obligations, weighted average interest rate 5.46%, due 2011 – 2040	41.9	52.2
	1,145.1	1,208.4
Less amount due within one year	49.7	379.4
	$ 1,095.4	$ 829.0

First mortgage loans are secured by land, buildings and specific charges on certain assets. Capital lease obligations are secured by the related capital lease asset.

Sobeys Group Inc., an indirect subsidiary of Sobeys, has provided its debenture holders with a floating charge over all its assets, subject to permitted encumbrances, a general assignment of book debts and the assignment of proceeds of insurance policies.

Sinking fund debenture payments are required on an annual basis. The proportionate share of related debt is retired with these repayments.

On June 1, 2010, Sobeys filed a short form prospectus providing for the issuance of up to $500.0 of unsecured medium term notes. On June 7, 2010, Sobeys issued new medium term notes of $150.0, bearing an interest rate of 6.64 percent, maturing on June 7, 2040.

On June 4, 2010, the Company renewed its Credit Facilities which were reduced from $650.0 to $450.0. The unsecured revolving term credit now matures June 30, 2013. At May 7, 2011, the Credit Facilities had a balance outstanding of $118.0 (May 1, 2010 – $294.5). The Credit Facilities are subject to certain financial covenants. Interest on the debt varies based on the designation of the loan (bankers' acceptances ("BA") rate loans, Canadian prime rate loans, U.S. base rate loans or LIBOR loans), fluctuations in the underlying rates, and in the case of the BA rate loans or LIBOR loans, the margin applicable to the financial covenants.

On July 23, 2007, Sobeys established a new unsecured revolving term credit facility maturing July 23, 2012. Under the terms of the credit agreement entered into between Sobeys and a banking syndicate, a revolving term credit facility of $300.0 was established and increased by an additional $300.0, resulting in a current total authorized credit facility of $600.0. At May 7, 2011, $200.0 (May 1, 2010 – $200.0) of this facility had been drawn down. Interest payable on this facility fluctuates with changes in the bankers' acceptance rate, Canadian prime rate or LIBOR. Interest on the facility is partially hedged with a $200.0 interest rate swap maturing on July 23, 2012. Sobeys had also issued $35.3 in letters of credit against the facility at May 7, 2011 ($36.8 at May 1, 2010).

On November 8, 2007, Sobeys established a revolving credit facility of $75.0 that was unutilized at November 8, 2010. The interest rate was floating and fluctuated with changes in the bankers' acceptance rate, Canadian prime rate or LIBOR. On November 8, 2010, the facility matured and was cancelled by Sobeys.

During fiscal 2011, Sobeys increased its capital lease obligation by $5.4 (2010 – $7.1) with a similar increase in assets under capital leases. These additions are non-cash in nature, therefore have been excluded from the statements of cash flows.

11 Long-Term Debt (continued)

Debt retirement payments and capital lease obligations in each of the next five fiscal years and thereafter are:

	Long-Term Debt	Capital Leases
2012	$ 36.5	$ 15.2
2013	216.8	10.6
2014	172.1	7.2
2015	26.7	3.4
2016	12.5	5.3
Thereafter	641.9	10.1
Total minimum lease payments		51.8
Financial expenses included in minimum lease payments		9.9
		$ 41.9

12 Other Long-Term Liabilities

	May 7, 2011	May 1, 2010
Deferred lease obligation	**$ 75.5**	$ 66.8
Deferred revenue	**13.3**	13.3
Accrued benefit liability *(Note 25)*	**26.8**	25.4
Derivative liabilities	**9.6**	17.2
Deferred gains	**4.5**	1.8
Other	**13.5**	6.1
	$ 143.2	$ 130.6

13 Capital Stock

	No. of Shares
Authorized	
Preferred shares, par value of $25 each, issuable in series.	
Series 2 cumulative, redeemable, rate of 75% of prime.	2,679,000
2002 Preferred shares, par value of $25 each, issuable in series.	992,000,000
Non-voting Class A shares, without par value.	258,593,856
Class B common shares, without par value, voting.	40,800,000

	No. of Shares	**May 7, 2011**	May 1, 2010
Issued and outstanding:			
Preferred shares, Series 2	**164,900**	**$ 4.1**	$ 4.2
Non-Voting Class A	**33,687,747**	**311.7**	316.2
Class B common	**34,260,763**	**7.6**	7.6
		323.4	328.0
Employees' share purchase plan		**(2.9)**	(2.9)
		$ 320.5	$ 325.1

13 Capital Stock (continued)

The Series 2 preferred shares are redeemable at par. During the year, the Company purchased for cancellation 3,100 Series 2 preferred shares for $0.1.

During the year, under a normal course issuer bid, the Company purchased for cancellation 513,579 Non-Voting Class A shares. The purchase price was $27.6 of which $23.0 of the purchase price (representing the premium on common shares purchased for cancellation) was charged to retained earnings.

During the year, 18,102 options were exercised and the Company issued 3,828 Non-Voting Class A shares pursuant to the cashless exercise clause of the stock option plan. Capital stock increased by $0.1.

Loans receivable from officers and employees of $2.9 (2010 – $2.9) under the Company's share purchase plan are classified as a reduction of Shareholders' Equity. Loan repayments will result in a corresponding increase in share capital. The loans are non-interest bearing and non-recourse, secured by 101,510 (2010 – 101,510) Non-Voting Class A shares. The market value of the shares at May 7, 2011 was $5.5 (May 1, 2010 – $5.4).

Under certain circumstances, where an offer (as defined in the share conditions) is made to purchase Class B common shares, the holders of the Non-Voting Class A shares shall be entitled to receive a follow-up offer at the highest price per share paid, pursuant to such offer to purchase Class B common shares.

14 Accumulated Other Comprehensive Loss

The following table provides further detail regarding the composition of accumulated other comprehensive loss:

	May 7, 2011	May 1, 2010
Balance, beginning of year	**$ (28.1)**	$ (48.5)
Other comprehensive income for the year	**7.7**	20.4
Balance, end of year	**$ (20.4)**	$ (28.1)

An estimated net loss of $6.4 recorded in accumulated other comprehensive loss related to the cash flow hedges as at May 7, 2011 (May 1, 2010 – $6.0), is expected to be reclassified to net earnings during the next 12 months. Remaining amounts will be reclassified to net earnings over periods up to seven years.

15 Capital Management

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, (iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants, and; (iv) to maintain an investment grade credit rating with each rating agency that assesses the credit worthiness of Sobeys Inc. No changes were made to these objectives in the current year.

The Company monitors and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

15 Capital Management (continued)

The Company considers its total capitalization to include all interest bearing debt, including bank loans, bankers' acceptances, long-term debt (including the current portion thereof) and shareholders' equity, net of cash. The calculation is set out in the following table:

	May 7, 2011	May 1, 2010
Bank indebtedness	$ 8.1	$ 17.8
Long-term debt due within one year	49.7	379.4
Liabilities relating to assets held for sale	12.7	–
Long-term debt	1,095.4	829.0
Funded debt	1,165.9	1,226.2
Less cash and cash equivalents	(616.9)	(401.0)
Net funded debt	549.0	825.2
Shareholders' equity	3,249.0	2,952.4
Capital under management	$ 3,798.0	$ 3,777.6

Although the Company does not include operating leases in its definition of capital, the Company does give consideration to its obligations under operating leases when assessing its total capitalization.

The primary investments undertaken by the Company include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and features and the purchase of land bank sites for future store construction. The Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. In addition, the Company makes capital expenditures in support of its real estate and other operations. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. This cash flow is supplemented, when necessary, through the borrowing of additional debt or the issuance of additional capital stock.

Management monitors certain key ratios to effectively manage capital:

	May 7, 2011	May 1, 2010
Funded debt to total capital (1)	26.4%	29.3%
Funded debt to EBITDA(2)	1.4x	1.5x
EBITDA to interest expense	12.1x	11.3x

(1) Total capital is funded debt plus shareholders' equity.

(2) EBITDA and interest expense are comprised of EBITDA and interest expense for the 53 or 52 week periods then ended. EBITDA (operating income plus depreciation and amortization) is a non-GAAP financial measure. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

As part of existing debt agreements, two financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements. The covenants are: (i) adjusted total debt/EBITDA – calculated as net funded debt plus letters of credit, guarantees and commitments divided by EBITDA (for previous 53 or 52 weeks); and (ii) debt service coverage ratio – calculated as EBITDA divided by interest expense plus repayments of long-term debt (all amounts are based on previous 53 or 52 weeks).

The Company was in compliance with these covenants as at May 7, 2011.

16 Investment Income

	2011 (53 Weeks)	2010 (52 Weeks)
Dividend and interest income	$ 1.0	$ 3.3
Share of earnings of entities accounted using the equity method	28.8	28.1
	$ 29.8	$ 31.4

17 Capital Gains (Losses) and Other Items

	2011 (53 Weeks)	2010 (52 Weeks)
Gain on sale of Wajax *(Note 2)*	$ 86.8	$ –
Donation of Wajax units	(6.0)	–
Store and distribution centre closure costs	(21.5)	–
Reduction of book value of real estate assets	(2.7)	–
Gain (loss) on disposal of assets	3.2	(0.2)
Change in fair value of Canadian third-party asset-backed commercial paper	1.6	3.4
Foreign exchange (losses) gains	(0.1)	0.9
Equity share of Crombie REIT's other expenses	–	(4.7)
	$ 61.3	$ (0.6)

During the year, Sobeys recorded $16.1 in pre-tax costs associated with the Price Chopper banner in Ontario due to pending store closures and $5.4 in pre-tax severance costs related to the future closure of the Brantford, Ontario distribution centre. Also the Company recorded an impairment charge of $2.7 to reduce the carrying value of one commercial property to estimated fair value, reflecting the changing market condition of that particular property.

18 Income Taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory income tax rate as a result of the following:

	2011 (53 Weeks)	2010 (52 Weeks)
Income tax expense according to combined statutory rate of 28.7% (2010 – 30.1%)	$ 139.9	$ 122.4
Adjustment to income taxes resulting from:		
Non-deductible amounts	1.2	1.1
Capital items	(21.1)	(1.0)
Impact of statutory income tax rate changes	(1.5)	(4.7)
Non-taxable amounts	(2.9)	–
Other	(6.7)	(1.7)
Hannaford tax settlement	–	(17.0)
Total income taxes, combined effective tax rate of 22.3% (2010 – 24.4%)	$ 108.9	$ 99.1

18 Income Taxes (continued)

During fiscal 2010, the Company and Canada Revenue Agency ("CRA") concluded negotiations and settled the matter with respect to the tax treatment of gains realized on the sale of shares of Hannaford Bros Co in fiscal 2001. Income tax expense was reduced by $17.0 as a result of that settlement.

May 7, 2011 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	**$ 103.2**	**$ 6.1**	**$ 109.3**
Capital gains and other items	**2.9**	**(3.3)**	**(0.4)**
	$ 106.1	**$ 2.8**	**$ 108.9**

May 1, 2010 income tax expense attributable to net earnings consists of:

	Current	Future	Total
Operations	$ 123.6	$ (6.5)	$ 117.1
Capital gains and other items	(14.4)	(3.6)	(18.0)
	$ 109.2	$ (10.1)	$ 99.1

The tax effect of temporary differences that give rise to significant portions of future tax liability are presented below:

	May 7, 2011	May 1, 2010
Investments	**$ (5.6)**	$ (3.5)
Other assets	**13.9**	18.2
Property and equipment	**122.8**	104.0
Goodwill and intangibles	**37.6**	36.9
Accounts payable and accrued liabilities	**(21.0)**	(10.8)
Long-term debt	**(2.0)**	(2.2)
Other long-term liabilities	**(36.4)**	(36.5)
Employee future benefits obligation	**(34.3)**	(33.7)
Other	**67.5**	64.9
	$ 142.5	$ 137.3
Current future tax liabilities	**$ 46.6**	$ 50.9
Non-current future tax liabilities	**95.9**	86.4
	$ 142.5	$ 137.3

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.

19 Supplementary Cash Flow Information

	2011 (53 Weeks)	2010 (52 Weeks)
a) Items not affecting cash		
Depreciation	$ 324.0	$ 307.8
Amortization of intangibles	38.1	31.9
Future tax provision	2.8	(10.1)
(Gain) loss on disposal of assets	(2.7)	2.2
Amortization of deferred items	0.2	3.3
Provision on asset-backed commercial paper	(1.6)	(3.4)
Equity in earnings of other entities, net of dividends received	3.8	10.7
Stock-based compensation	1.6	1.6
Employee future benefits obligation	4.9	6.7
Increase in deferred lease obligation	8.7	12.4
Minority interest	9.0	5.6
Business rationalization *(Note 28)*	4.1	(10.7)
Gain on sale of Wajax	(86.8)	–
Reduction of book value of real estate assets	2.7	–
	$ 308.8	$ 358.0
b) Other cash flow information		
Net interest paid	$ 67.8	$ 69.9
Net income taxes paid	$ 122.8	$ 91.6

20 Joint Ventures

The financial statements include the Company's proportionate share of the accounts of incorporated and unincorporated joint ventures. A summary of these amounts is as follows:

	May 7, 2011	May 1, 2010
Assets		
Current	$ 129.2	$ 137.9
Non-current	0.8	6.0
	$ 130.0	$ 143.9
Liabilities		
Current	$ 25.4	$ 30.3
Non-current	0.9	3.4
Equity and advances	103.7	110.2
	$ 130.0	$ 143.9

20 Joint Ventures (continued)

	2011 (53 Weeks)	2010 (52 Weeks)
Revenues	$ 75.9	$ 66.2
Expenses	44.0	34.9
Earnings before income taxes	$ 31.9	$ 31.3
Cash provided (used)		
Operating activities	$ 32.3	$ 18.8
Investing activities	0.8	(11.6)
Financing activities	3.9	13.2
	$ 37.0	$ 20.4

21 Segmented Information

Sales

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	$ 15,761.6	$ 15,243.0
Real estate		
Residential	72.7	63.3
Commercial	12.9	17.3
	85.6	80.6
Investment and other operations	189.0	202.2
	16,036.2	15,525.8
Elimination of inter-segment	(7.0)	(9.6)
	$ 16,029.2	$ 15,516.2

Operating Income

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	$ 445.8	$ 425.3
Real estate		
Residential	32.3	31.0
Crombie REIT	18.7	18.6
Commercial	2.6	1.2
Investment and other operations		
Wajax	8.7	9.2
Other operations, net of corporate expenses	(10.7)	(5.6)
	$ 497.4	$ 479.7

21 Segmented Information (continued)

Identifiable Assets

	May 7, 2011	May 1, 2010
Food retailing (excluding goodwill)	$ 4,945.1	$ 4,524.0
Goodwill	1,137.6	1,131.8
Food retailing	6,082.7	5,655.8
Real estate	223.8	315.5
Investment and other operations (including goodwill of $40.8; May 1, 2010 – $40.8)	248.9	277.0
	$ 6,555.4	$ 6,248.3

Inventories

	May 7, 2011	May 1, 2010
Food retailing	$ 813.7	$ 780.4
Real estate – residential	91.6	98.9
Other operations	0.8	1.0
	$ 906.1	$ 880.3

Depreciation and Amortization

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	$ 339.0	$ 318.3
Real estate	0.7	1.3
Investment and other operations	22.4	20.1
	$ 362.1	$ 339.7

Capital Expenditures

	2011 (53 Weeks)	2010 (52 Weeks)
Food retailing	$ 519.4	$ 341.4
Real estate	10.6	68.1
Investment and other operations	24.0	24.5
	$ 554.0	$ 434.0

The Company operates principally in two business segments: food retailing and real estate. The food retailing segment consists of distribution of food products in Canada. The real estate segment consists of development and ownership of both commercial and residential properties. Commercial real estate is mainly land held for the development of food-anchored retail strip plazas. Residential real estate is the development of housing lots for resale. Inter-segment transactions are recorded at amounts equivalent to transactions with outside parties.

22 Financial Instruments

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily ABCP, accounts receivable, loans and other receivables, derivative contracts and guarantees.

The Company's maximum exposure to credit risk corresponds to the carrying amount for all loans and receivables, the fair market value of derivative contracts represented on the balance sheet and guarantee contracts for franchise affiliates.

The Company mitigates credit risk associated with its trade accounts receivable, loans and other receivables through established credit approvals, limits and a regular monitoring process. The Company generally considers the credit quality of its financial assets that are neither past due or impaired to be high. The Company regularly monitors collection performance and pledged security for all of its accounts receivable, loans and other receivables to ensure adequate payments are being received and adequate security is available. Pledged security can vary by agreement, but generally includes inventory, fixed assets including land and/or building, as well as personal guarantees. Credit risk is further mitigated due to the large number of customers and their dispersion across geographic areas. The Company only enters into derivative contracts with Canadian chartered banks to minimize credit risk.

Receivables are substantially comprised of balances due from independent accounts, franchisee or affiliate locations as well as rebates and allowances from vendors. The due date of these amounts can vary by agreement but in general balances over 30 days are considered past due. The aging of the receivables is as follows:

	May 7, 2011	May 1, 2010
0 – 30 days	**$ 307.1**	$ 280.7
31 – 90 days	**17.8**	28.9
Greater than 90 days	**34.8**	47.4
Total receivables before allowance for doubtful accounts	**359.7**	357.0
Less: allowance for doubtful accounts	**(13.1)**	(20.1)
Receivables	**$ 346.6**	$ 336.9

Interest earned on past due accounts is recorded as a reduction to cost of sales, selling and administrative expenses in the statements of earnings. Loans and other receivables are all current as of May 7, 2011.

Allowance for doubtful accounts is reviewed at each balance sheet date. An allowance is taken on accounts receivable from independent accounts, as well as accounts receivable, loans and other receivables from franchise or affiliate locations, and is recorded as a reduction to its respective receivable account on the balance sheet. The Company updates its estimate of allowance for doubtful accounts based on past due balances from independent accounts and based on an evaluation of recoverability net of security assigned for franchise or affiliate locations. Current and long-term accounts receivable, loans and other receivables are reviewed on a regular basis and are written-off when collection is considered unlikely. The change in allowance for doubtful accounts is recorded as cost of sales, selling and administrative expenses in the statements of earnings and is presented as follows:

	May 7, 2011	May 1, 2010
Allowance, beginning of year	**$ 20.1**	$ 31.2
Provision for losses	**0.3**	8.9
Recoveries	**(2.9)**	(7.0)
Write-offs	**(4.4)**	(13.0)
Allowance, end of year	**$ 13.1**	$ 20.1

Liquidity Risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities 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 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.

22 Financial Instruments (continued)

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities on an undiscounted basis as at May 7, 2011:

	2012	2013	2014	2015	2016	Thereafter	Total
Derivative financial liabilities							
Interest rate swaps payable[1]	$ 10.7	$ 2.6	$ –	$ –	$ –	$ –	$ 13.3
Non-derivative financial liabilities							
Bank indebtedness	8.1	–	–	–	–	–	8.1
Accounts payable and accrued liabilities	1,689.0	–	–	–	–	–	1,689.0
Long-term debt	116.0	275.3	222.1	70.2	56.8	1,455.1	2,195.5
Total	$ 1,823.8	$ 277.9	$ 222.1	$ 70.2	$ 56.8	$ 1,455.1	$ 3,905.9

(1) Represents the payable fixed interest (will be partially offset by the floating interest received).

Fair Value of Financial Instruments

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle the financial assets and financial liabilities as at the reporting date.

The book value of cash and cash equivalents, receivables, loans and other receivables, and accounts payable and accrued liabilities approximate fair values at the balance sheet dates.

The fair value of the variable rate long-term debt is assumed to approximate its carrying amount. The fair value of other long-term liabilities has been estimated by discounting future cash flows at a rate offered for debt of similar maturities and credit quality.

The following table summarizes the classification of the Company's financial instruments, as well as their carrying amounts and fair values:

May 7, 2011	Held for Trading (Required)	Held for Trading (Designated)	Available-for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
Financial assets							
Cash and cash equivalents	$ –	$ 616.9	$ –	$ –	$ –	$ 616.9	$ 616.9
Receivables	–	–	–	346.6	–	346.6	346.6
Loans and other receivables	–	–	–	150.5	–	150.5	150.5
Investments	–	–	14.3	–	–	14.3	14.3
Other assets[1]	–	39.9	–	–	–	39.9	39.9
Total financial assets	$ –	$ 656.8	$ 14.3	$ 497.1	$ –	$ 1,168.2	$ 1,168.2
Fair value level 1	$ –	$ 634.0	$ 14.3				$ 648.3
Fair value level 2	–	–	–				–
Fair value level 3	–	22.8	–				22.8
Total fair value	$ –	$ 656.8	$ 14.3				$ 671.1
Financial liabilities							
Bank indebtedness	$ –	$ –	$ –	$ –	$ 8.1	$ 8.1	$ 8.1
Accounts payable and accrued liabilities	–	–	–	–	1,689.0	1,689.0	1,689.0
Long–term debt	–	–	–	–	1,157.8	1,157.8	1,173.4
Other long-term liabilities[2]	9.6	–	–	–	–	9.6	9.6
Total financial liabilities	$ 9.6	$ –	$ –	$ –	$ 2,854.9	$ 2,864.5	$ 2,880.1
Fair value level 1	$ –	$ –	$ –				$ –
Fair value level 2	9.6	–	–				9.6
Fair value level 3	–	–	–				–
Total fair value	$ 9.6	$ –	$ –				$ 9.6

(1) The total carrying value of financial assets included in other assets is $39.9.

(2) Only the derivative liability portion is presented here.

22 Financial Instruments (continued)

May 1, 2010	Held for Trading (Required)	Held for Trading (Designated)	Available-for-Sale	Loans and Receivables	Other Financial Liabilities	Total Carry Amount	Fair Value
Financial assets							
Cash and cash equivalents	$ –	$ 401.0	$ –	$ –	$ –	$ 401.0	$ 401.0
Receivables	–	–	–	336.9	–	336.9	336.9
Loans and other receivables	–	–	–	185.0	–	185.0	185.0
Investments	–	–	10.9	–	–	10.9	10.9
Other assets [1]	–	31.8	–	–	–	31.8	31.8
Total financial assets	$ –	$ 432.8	$ 10.9	$ 521.9	$ –	$ 965.6	$ 965.6
Fair value level 1	$ –	$ 411.6	$ 10.9				$ 422.5
Fair value level 2	–	–	–				–
Fair value level 3	–	21.2	–				21.2
Total fair value	$ –	$ 432.8	$ 10.9				$ 443.7
Financial liabilities							
Bank indebtedness	$ –	$ –	$ –	$ –	$ 17.8	$ 17.8	$ 17.8
Accounts payable and accrued liabilities	–	–	–	–	1,621.6	1,621.6	1,621.6
Long–term debt	–	–	–	–	1,208.4	1,208.4	1,231.1
Other long-term liabilities [2]	17.2	–	–	–	–	17.2	17.2
Total financial liabilities	$ 17.2	$ –	$ –	$ –	$ 2,847.8	$ 2,865.0	$ 2,887.7
Fair value level 1	$ –	$ –	$ –				$ –
Fair value level 2	17.2	–	–				17.2
Fair value level 3	–	–	–				–
Total fair value	$ 17.2	$ –	$ –				$ 17.2

(1) The total carrying value of financial assets included in other assets is $31.8.

(2) Only the derivative liability portion is presented here.

Derivative Financial Instruments

Derivative financial instruments are recorded on the consolidated balance sheet at fair value unless the derivative instrument is a contract to buy or sell a non-financial item in accordance with the Company's expected purchase, sale or usage requirements, referred to as a "normal purchase or normal sale". Changes in the fair values of derivative financial instruments are recognized in earnings unless it qualifies and is designated as an effective cash flow hedge or a normal purchase or normal sale. Normal purchases and normal sales are exempt from the application of the standard and are accounted for as executory contracts. Changes in fair value of a derivative financial instrument designated as a cash flow hedge are recorded in other assets and liabilities with the effective portion recorded in accumulated other comprehensive income.

Interest Rate Risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with floating interest rates. The majority of the Company's long-term debt is at a fixed interest rate or hedged with interest rate swaps. Bank indebtedness and approximately 11 percent (2010 – 17 percent) of the Company's long-term debt is exposed to interest rate risk due to floating rates.

Net earnings is sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the period. During the year, the Company recognized $0.5 (2010 – $3.8) directly into earnings as the result of ineffective hedging contracts. Accordingly, a difference of 0.25 percent in the applicable interest rate would impact net earnings by $0.2 (2010 – $0.3) and other comprehensive income by $0.5 (2010 – $0.9).

22 Financial Instruments (continued)

Foreign Currency Exchange Risk

Investments include $2.2 Canadian that is denominated in U.S. dollars. The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars. In addition, the Company also uses forward contracts to fix the exchange rate on some of its expected requirements for Euros and U.S. dollars. Amounts received or paid related to instruments used to hedge foreign exchange, including any gains and losses, are recognized in the cost of purchases. During the year, the Company recognized $nil (2010 – $nil) directly into earnings as the result of ineffective hedging contracts. The remaining contract outstanding as of May 7, 2011 expired May 10, 2011. The Company estimates that a 10 percent change in applicable foreign currency exchange rates would impact net earnings by $6.0 (2010 – $5.2) and other comprehensive income by $3.3 (2010 – $0.9).

Commodity Price Risk

Commodity price risk is the risk that the fair value of certain financial instruments or the Company's future cash flows will fluctuate as a result of changes in the market price of commodities. The Company has attempted to mitigate commodity price risk to electricity prices through the use of financial derivative swap contracts while closely monitoring other commodity prices to determine the appropriate course of action. During the year, the Company recognized $nil (2010 – $nil) directly into earnings as the result of ineffective hedging contracts. There were no contracts outstanding at year end. The Company estimates that a 10 percent change in applicable commodity prices would impact other comprehensive income by $nil (2010 – $0.1).

Market Risk

Market risk is the risk that the fair value of investments will fluctuate as a result of changes in the price of the investment. The Company estimates that a 10 percent change in the market value of its investments that trade on a recognized stock exchange would impact other comprehensive income by $1.2 (2010 – $0.9).

23 Guarantees, Commitments and Contingent Liabilities

Guarantees and Commitments

At May 7, 2011, the Company was contingently liable for letters of credit issued in the aggregate amount of $46.2 (May 1, 2010 – $50.1).

During fiscal 2008, Sobeys entered into an additional guarantee contract. Under the terms of the guarantee should franchise affiliates be unable to fulfil their lease obligations, Sobeys would be required to fund the greater of $7.0 or 9.9 percent (2010 – $7.0 or 9.9 percent) of the authorized and outstanding obligation. The terms of the guarantee contract are reviewed annually each August. As at May 7, 2011, the amount of the guarantee was $7.0 (May 1, 2010 – $7.0).

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

During fiscal 2009, Sobeys entered into an additional credit enhancement contract in the form of a standby letter of credit for certain independent franchisees for the purchase and installation of equipment. Under the terms of the contract should franchisee affiliates be unable to fulfill their lease obligations or other remedy, Sobeys would be required to fund the greater of $4.0 or 10.0 percent (2010 – $4.0 or 10 percent) of the authorized and outstanding obligation annually. Under the terms of the agreement, Sobeys is required to obtain a letter of credit in the amount of the outstanding guarantee, to be revisited each calendar year. This credit enhancement allows Sobeys to provide favorable financing terms to certain independent franchisees. The contract terms have been reviewed and Sobeys determined that there were no material implications with respect to the consolidation of VIEs. As at May 7, 2011, the amount of the guarantee was $4.2 (May 1, 2010 – $4.0).

The aggregate, annual, minimum rent payable under the guaranteed operating equipment leases for fiscal 2012 is approximately $25.6. The guaranteed lease commitments over the next five years are:

23 Guarantees, Commitments and Contingent Liabilities

	Third Parties
2012	$ 25.6
2013	10.2
2014	3.4
2015	1.2
2016	–
Thereafter	–

The net aggregate, annual, minimum rent payable under operating leases for fiscal 2012 is approximately $306.3 ($377.4 gross less expected sub-lease income of $71.1). The net commitments over the next five fiscal years are:

	Third Parties		Related Parties	
	Net Lease Obligation	Gross Lease Obligation	Net Lease Obligation	Gross Lease Obligation
2012	$ 251.0	$ 322.1	$ 55.3	$ 55.3
2013	235.6	303.9	54.3	54.3
2014	201.2	264.7	47.3	47.3
2015	189.9	248.8	47.0	47.0
2016	178.8	231.5	46.5	46.5
Thereafter	1,069.9	1,440.5	518.5	518.5

Upon entering into the lease of its 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 nine years with an aggregate obligation of $28.6 (2010 – $31.6). 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.

Contingencies

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

The Company has agreed to indemnify its directors and officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

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.

24 Related-Party Transactions

Related party transactions are with Crombie REIT. The Company holds a 46.4 percent ownership interest and accounts for its investment using the equity method.

During the year, the Company sold twelve (2010 – eight) commercial properties to Crombie REIT for net proceeds of $104.0 (2010 – $56.7), which was fair market value. Since the sales were to an equity accounted investment, the gains were not included in earnings, rather the gains reduced the carrying value of the Company's equity investment in Crombie REIT.

24 Related-Party Transactions (continued)

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 fiscal year 2011, the aggregate net payments under these leases, which are measured at exchange amounts, were $61.7 (2010 – $57.3).

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. The Company has provided Crombie REIT with fixed rate second mortgages in the amount of $5.7 (May 1, 2010 – $5.9). The second mortgages have a weighted average interest rate of 5.38% with a maturity date of March 2014.

During fiscal 2010, the Company purchased $10.0 of convertible unsecured subordinated debentures (the "Debentures") from Crombie REIT, pursuant to a bought-deal prospectus offering for a total of $85.0. The Debentures have a maturity date of June 30, 2015. The Debentures have a coupon of 6.25% per annum and each $1,000 principal amount of Debenture is convertible into approximately 90.9091 units of Crombie REIT, at any time, at the option of the holder, based on a conversion price of $11.00 per unit. The Debentures have been classified as available-for-sale and are included in investments, at realizable value.

25 Employee Future Benefits

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees.

Defined contribution pension plans
The contributions required by the employee and the employer are specified. The employee's pension depends on what level of retirement income (for example, annuity purchase) that can be achieved with the combined total of employee and employer contributions and investment income over the period of plan membership, and the annuity purchase rates at the time of the employee's retirement.

Other benefit plans
The Company also offers certain employee post-retirement and post-employment benefit plans which are not funded and include health care, life insurance and dental benefits. During the year, the post-retirement benefit program was modified for employees retiring after May 1, 2011. A closed group of individuals who met certain age and service criteria as of May 1, 2011 will maintain medical, drug and life insurance coverage, while those individuals who did not meet the age and service criteria will be offered critical illness coverage. The financial impact of these post-retirement benefit changes have been taken into account and the one time impact of these changes resulted in a decrease in the employee future benefits obligation of $25.6, treated as a past service event.

Defined benefit pension plans
The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employee contributions, if required, pay for part of the cost of the benefit, but the employer contributions fund the balance. The employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of the valuation.

The Company uses April 30th as an actuarial valuation date and May 1st as a measurement date for accounting purposes for its defined benefit pension plans.

	Most Recent Valuation Date	Next Required Valuation Date
Retirement Pension Plan	May 1, 2011	May 1, 2014
Senior Management Pension Plan	May 1, 2011	May 1, 2014
Other Benefit Plans	May 1, 2010	May 1, 2013

25 Employee Future Benefits (continued)

Defined Contribution Plans

The total expense and cash contributions for the Company's defined contribution plans are as follows:

2011	$ 23.7
2010	$ 20.5

Defined benefit plans

Information about the Company's defined benefits plans, in aggregate, is as follows:

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	**Other Benefit Plans 2011**	Other Benefit Plans 2010
Accrued benefit obligation				
Balance, beginning of year	**$ 264.7**	$ 249.8	**$ 133.7**	$ 108.5
Current service cost, net of employee contributions	**2.4**	1.9	**3.1**	3.0
Interest cost	**14.0**	14.9	**6.8**	7.0
Employee contributions	**0.2**	0.2	**–**	–
Benefits paid	**(19.9)**	(24.9)	**(4.4)**	(3.3)
Past service costs	**–**	1.5	**(25.6)**	–
Actuarial losses	**7.0**	21.3	**8.7**	18.5
Balance, end of year	**$ 268.4**	$ 264.7	**$ 122.3**	$ 133.7

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	**Other Benefit Plans 2011**	Other Benefit Plans 2010
Plan assets				
Market value, beginning of year	**$ 221.8**	$ 202.1	**$ –**	$ –
Actual return on plan assets	**26.1**	38.5	**–**	–
Employer contributions	**6.1**	6.0	**4.4**	3.3
Employee contributions	**0.2**	0.2	**–**	–
Benefits paid	**(19.9)**	(25.0)	**(4.4)**	(3.3)
Market value, end of year	**$ 234.3**	$ 221.8	**$ –**	$ –
Funded status				
Deficit	**$ (34.1)**	$ (42.9)	**$ (122.3)**	$ (133.7)
Unamortized past service cost	**1.1**	1.5	**(24.1)**	0.5
Unamortized actuarial losses	**67.4**	76.4	**16.4**	8.1
Accrued benefit asset (liability)	**$ 34.4**	$ 35.0	**$ (130.0)**	$ (125.1)

25 Employee Future Benefits (continued)

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Expense				
Current service cost, net of employee contributions	**$ 2.4**	$ 2.0	**$ 3.1**	$ 3.0
Interest cost	**14.0**	14.9	**6.8**	7.0
Actual return on plan assets	**(26.1)**	(38.5)	**–**	–
Actuarial losses	**7.0**	21.3	**8.7**	18.4
Past service costs	**–**	1.5	**(25.6)**	–
(Income) expense before adjustments	**(2.7)**	1.2	**(7.0)**	28.4
Expected vs. actual return on plan assets	**11.1**	25.0	**–**	–
Recognized vs. actual past service costs	**0.4**	(1.1)	**24.6**	0.1
Recognized vs. actuarial gains	**(2.1)**	(15.2)	**(8.4)**	(18.5)
Net expense	**$ 6.7**	$ 9.9	**$ 9.2**	$ 10.0
Classification of accrued benefit asset (liability)				
Other asset	**$ 61.2**	$ 60.4	**$ –**	$ –
Other liability	**(26.8)**	(25.4)	**(130.0)**	(125.1)
Accrued benefit asset (liability)	**$ 34.4**	$ 35.0	**$ (130.0)**	$ (125.1)

Included in the accrued benefit obligation at year-end are the following amounts in respect of plans that are not funded:

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Accrued benefit obligation	**$ 26.8**	$ 25.4	**$ 130.0**	$ 125.1

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligation are as follows (weighted-average assumptions as of May 7, 2011):

	Pension Benefit Plans 2011	Pension Benefit Plans 2010	Other Benefit Plans 2011	Other Benefit Plans 2010
Discount rate	**5.25%**	5.50%	**5.25%**	5.75%
Expected long-term rate of return on plan assets	**7.00%**	7.00%		
Rate of compensation increase	**4.00%**	4.00%		

For measurement purposes, a 9.00 percent fiscal 2011 annual rate of increase in the per capita cost of covered health care benefits was assumed (2010 – 9.00 percent). The cumulative rate expectation to 2019 is 5.00 percent. The EARSL of the active employees covered by the pension benefit plans ranges from 10 to 12 years with a weighted average of 10 years at year end. The EARSL of the active employees covered by the other benefit plans range from 10 to 14 years with a weighted average of 13 years at year end.

The table below outlines the sensitivity of the fiscal 2011 key economic assumptions used in measuring the accrued benefit plan obligation and related expense of the Company's pension and other benefit plans. The sensitivity of each key assumption has been calculated independently. Changes to more than one assumption simultaneously may amplify or reduce impact on the accrued benefit obligation or benefit plan expense.

25 Employee Future Benefits (continued)

	Pension Plans		Other Benefit Plans	
	Benefit Obligation	Benefit Cost[1]	Benefit Obligation	Benefit Cost[1]
Expected long-term rate of return on plan assets		7.00%		
Impact of: 1% increase		$ (2.3)		
1% decrease		$ 2.3		
Discount rate[2]	5.25%	5.25%	5.25%	5.75%
Impact of: 1% increase	$ (28.8)	$ 0.5	$ (15.9)	$ (0.2)
1% decrease	$ 32.3	$ (0.8)	$ 17.1	$ 0.2
Growth rate of health costs[3]			9.00%	9.00%
Impact of: 1% increase			$ 17.1	$ 2.0
1% decrease			$ (14.7)	$ (1.6)

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

(2) 5.00 percent for the Senior Management Plan, Oshawa SERP and Post-Retirement Benefits and 4.25 percent for the Post-Retirement Benefit Plan.

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

The asset mix of the defined benefit pension plans as at year end is as follows:

	2011	2010
Cash and short-term investments	**2.64%**	1.78%
Bonds, debentures, fixed income pooled funds and real estate funds	**37.80%**	35.52%
Equities and pooled equities fund	**57.64%**	61.38%
Accrued interest and dividends	**0.20%**	0.21%
Foreign currency hedges	**1.72%**	1.11%
Total investments	**100.00%**	100.00%

Within these securities are investments in Empire Company Limited Non-Voting Class A shares. The market value of these shares at year end are as follows:

	2011	**% of Plan Assets**	2010	% of Plan Assets
	$ 80.6	**7.8%**	$ 115.5	12.7%

26 Business Acquisitions

Sobeys acquires franchisee and non-franchisee stores and prescription files. The results of these acquisitions have been included in the consolidated financial results of the Company since their acquisition dates, and were accounted for through the use of the purchase method. As illustrated in the table below, the acquisition of certain franchisee stores and non-franchisee stores resulted in the acquisition of intangible assets. The method of amortization of limited life intangibles is on a straight-line basis over their estimated useful life.

	2011 (53 Weeks)	2010 (52 Weeks)
Franchisees		
Inventory	$ 5.4	$ 6.0
Property and equipment	3.1	7.1
Intangibles	2.5	3.9
Goodwill	5.8	1.2
Other assets (liabilities)	0.2	(8.3)
	17.0	9.9
Prescription files		
Intangibles	–	6.9
Cash consideration	$ 17.0	$ 16.8

During fiscal 2010, ECL Properties Limited (a subsidiary of the Company) acquired additional units of two residential partnerships already co-owned by the Company for cash consideration of $17.2. The acquisitions were accounted for using the purchase method with net identifiable assets, primarily land inventory, recorded at $22.6 and future tax liabilities recorded at $5.4.

27 Stock-Based Compensation

Deferred Share Units

Members of the Board of Directors may elect to receive all or any portion of their fees in deferred share units ("DSUs") in lieu of cash. The number of DSUs received is determined by the market value of the Company's Non-Voting Class A shares on each director's fee payment date. Additional DSUs are received as dividend equivalents. DSUs cannot be redeemed for cash until the holder is no longer a director of the Company. The redemption value of a DSU equals the market value of an Empire Company Limited Non-Voting Class A share at the time of the redemption. On an ongoing basis, the Company values the DSU obligation at the current market value of a corresponding number of Non-Voting Class A shares and records any increase in the DSU obligation as an operating expense. At May 7, 2011, there were 113,473 (May 1, 2010 – 104,527) DSUs outstanding. During the year, the compensation expense was $1.1 (2010 – $1.3).

Stock Option Plan

During fiscal 2011, the Company granted an additional 150,464 options under the stock option plan for employees of the Company whereby options are granted to purchase Non-Voting Class A Shares. These options allow holders to purchase Non-Voting Class A Shares at $51.99 per share and expire in June 2018. The options vest over four years with 50 percent of the options vesting only if certain financial targets are attained in a given fiscal year. These options have been treated as stock-based compensation.

The compensation expense relating to the year was determined to be $1.6 (2010 – $1.6) with amortization of the expense over the vesting period. The total increase in contributed surplus in relation to the stock option compensation expense was $1.6 (2010 – $1.6). The compensation expense was calculated using the Black-Scholes model with the following assumptions:

Expected life	5.25 years
Risk-free interest rate	2.42%
Expected volatility	21.1%
Dividend yield	1.54%

27 Stock-Based Compensation (continued)

The outstanding options at May 7, 2011 were granted at prices between $40.26 and $51.99 and expire between June 2015 and June 2018. Stock option transactions during 2011 and 2010 were as follows:

	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**433,209**	**$ 43.22**	282,733	$ 41.47
Granted	**150,464**	**51.99**	162,399	46.04
Exercised (2010 forfeited)	**(18,102)**	**43.12**	(11,923)	40.26
Balance, end of year	**565,571**	**$ 45.55**	433,209	$ 43.22
Stock options exercisable, end of year	**187,658**		90,894	

The following table summarizes information about stock options outstanding at May 7, 2011:

	Options Outstanding			Options Exercisable	
Year Granted	Number of Outstanding Options	Weighted Average Remaining Contractual Life (1)	Weighted Average Exercise Price	Number Exercisable at May 7, 2011	Weighted Average Exercise Price
2008	**81,218**	**4.17**	**$ 43.96**	**60,914**	**$ 43.96**
2009	**173,086**	**5.17**	**40.26**	**86,543**	**40.26**
2010	**160,803**	**6.17**	**46.04**	**40,201**	**46.04**
2011	**150,464**	**7.17**	**51.99**	**–**	**–**
	565,571	**5.84**	**$ 45.55**	**187,658**	**$ 42.69**

(1) Weighted average remaining contractual life is expressed in years.

Share Purchase Plan

The Company has a share purchase plan for employees of the Company whereby loans are granted to purchase Non-Voting Class A Shares. These loans have been treated as stock-based compensation in accordance with EIC Abstract 132.

The Company's current practice is to use only the stock option plan to provide long-term incentive for employees. As a result, outstanding loans under the stock purchase plan will be repaid at the employees' option, but no later than the expiry date of the loans which were originally set for 10 years.

Phantom Performance Option Plan

Sobeys has a Phantom Performance Option Plan for eligible employees of Sobeys. Under the plan, units are granted at the discretion of the Board based on a notional equity value of Sobeys tied to a specified formula. Upon implementation, the units had a three year vesting period with 33.3 percent of the units vesting each year. Subsequent issuances have a four year vesting period with 25.0 percent of the units vesting each year. As the notional fair value of Sobeys changes, the employees are entitled to the incremental increase in the notional equity value over a five year period. The Company recognizes a compensation expense equal to the change in notional value over the original grant value on a straight-line basis over the vesting period. After the vesting period, any change in incremental notional equity value is recognized as a compensation expense immediately. This is recorded as an accrued liability until settlement and is remeasured at each interim and annual reporting period of the Company. As at May 7, 2011, 1,701,404 (May 1, 2010 – 1,379,175) units were outstanding. For the year ended May 7, 2011, the Company recognized $8.9 (2010 – $11.5) of compensation expense associated with this plan.

28 Business Rationalization Costs

During fiscal 2011, the Company continued to complete rationalizations of administrative functions. The Company also began to incur costs associated with the development of a new distribution centre in Terrebonne, Québec. For the year ended May 7, 2011, costs of $6.2 have been incurred and recognized (2010 – $nil). Additional rationalization costs are anticipated and will be quantified and disclosed throughout fiscal 2012 as they are available. The costs associated with the organizational change are recorded as incurred as costs of sales, selling and administrative expenses in the statements of earnings. The liability as of May 7, 2011 is $5.6 (2010 – $1.5). Total costs incurred as of May 7, 2011 were $31.1.

29 Variable Interest Entities

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

The Company has identified the following entities as VIEs:

Franchise Affiliates

The Company has identified 288 (2010 – 273) franchise affiliate stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG 15. The results for these entities were consolidated with the results of the Company.

Warehouse and Distribution Agreement

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

30 Subsequent Events

Subsequent to year end, the Company sold two properties to Crombie REIT for net proceeds of $27.6, which was fair market value. Also, the Company sold its 50% interest in two properties to a third party for $14.6. As part of these transactions, first mortgage loans totalling $12.7 were paid in full.

31 Comparative Figures

Comparative figures have been reclassified, where necessary, to reflect the current year's presentation.