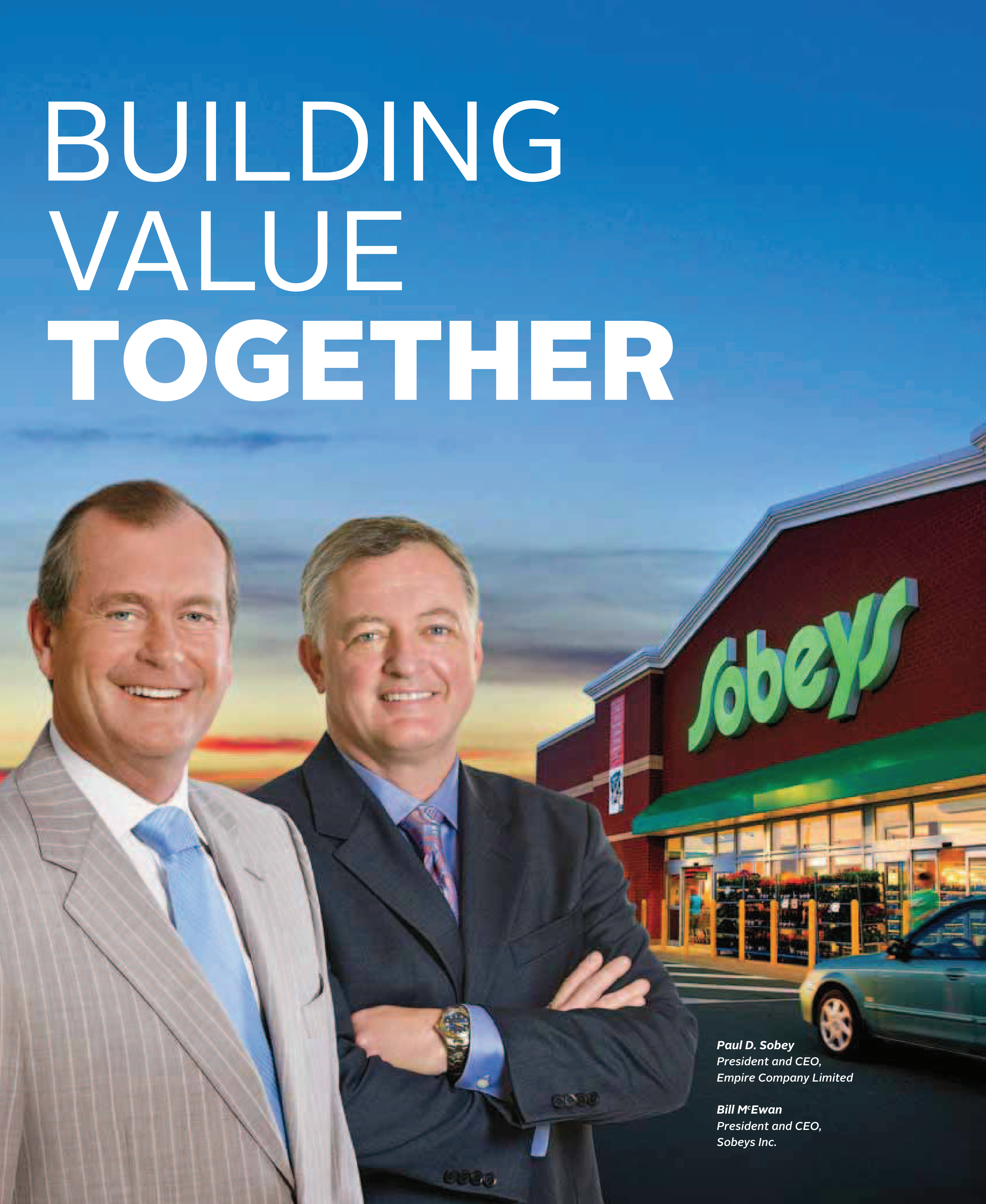
BUILDING VALUE **TOGETHER**



Paul D. Sobey
President and CEO,
Empire Company Limited

Bill McEwan
President and CEO,
Sobeys Inc.

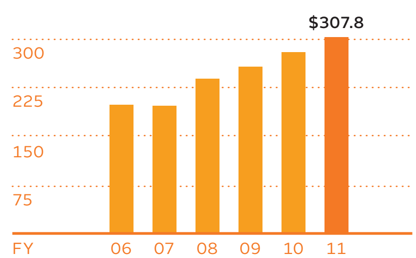
Empire's food retailing and related real estate businesses continued to deliver steady earnings and cash flow growth amid an intensely competitive food retail environment in fiscal 2011. The decision to focus our energy and capital resources on these stable and growing businesses has continued to benefit Empire's customers, suppliers, employees and investors.

The theme of this year's annual report – *being the best together* – is one that aptly reflects the important synergy that exists between Empire's food retailing and related real estate businesses. Sobeys' goal is to be widely recognized as the best food retailer in Canada and during the past few years, our food retailing and real estate employees have been working together to realize this vision as never before.

Steady Performance

Our shared focus on the businesses we know best continued to serve us well in fiscal 2011. Sales for the year totalled $16.0 billion compared to $15.5 billion in 2010. Operating earnings were $307.8 million or $4.51 per share compared to $284.5 million or $4.15 per share a year ago. Fiscal 2011 operating earnings benefited from continued growth in the fundamentals of our food retailing business which also benefited from an additional week of operations and from a lower effective income tax rate. At the same time we continued to strengthen the balance sheet as the ratio of funded debt to capital improved to 26.4 percent from 29.3 percent a year ago.

Consolidated Operating Earnings
($ in millions)



Empire's operating earnings have grown by more than $100 million over the past five years.

Food Retailing

At Sobeys, sales increased 3.4 percent to $15.8 billion from $15.2 billion a year ago despite an environment of persistent food price deflation. Lower retail prices that benefited consumers throughout fiscal 2011 were largely the result of very extensive price discounting in the industry, particularly in the Ontario marketplace.

In the midst of this deflationary price environment, Sobeys continued to deliver industry-leading same-store sales growth. This achievement has been driven by improved execution and enhancements to our food focused offering, the ongoing modernization of our store network, the continued development of our customer insight capabilities and the strengthening of our world-class private label program. Equally important are the cost and productivity initiatives that have supported continued earnings growth in an intensely competitive environment while setting the stage for long-term sustainable growth. During the past fiscal year, we continued to invest in the company-wide implementation of SAP, a multi-year systems initiative that is bringing every aspect of our business onto a single enterprise-wide platform. Scheduled for completion in 2013, it will allow us to further reduce complexity, capture increased economies of scale and take full advantage of our related sales and productivity tools and initiatives. It will also facilitate a second automated distribution centre slated to open in early 2013 near Montréal. Like our Vaughan, Ontario facility, it will add to our industry-leading logistics network capabilities.

While much attention has been paid to the successful launch of the FreshCo banner in Ontario, we also continued to invest in the expansion and modernization of our store network across the country. Among these investments are new prototype Sobeys, IGA *extra* and Thrifty Foods stores that promise to build upon the quality of our current full-service offerings, while incorporating innovative design and construction processes, and higher-efficiency equipment and fixtures. After several years of continued focus and sustained investment, our entire store network – including Sobeys, Sobeys Urban Fresh, IGA, IGA *extra*, Thrifty Foods, Foodland, Needs and Lawtons Drugs – is performing well. A significant majority of our store network is now at a standard that we consider current, and we continue to move the yardsticks. You can learn more about our investment in Sobeys' growth and productivity on pages 8 to 15 of this report.

Real Estate

The past year was also one of steady progress for Empire's real estate division, which principally consists of our investments in Crombie REIT and Genstar.

Our 46.4 percent stake in Crombie REIT represents an excellent investment in one of the steadiest performing and defensive portfolios in commercial real estate. One of Crombie

> "Our commercial real estate strategy is intended to accelerate the expansion of Sobeys' retail grocery network which supports long-term income growth and capital appreciation for Empire."
>
> *– Frank C. Sobey*

Property owned and operated by Crombie REIT.

REIT's strengths is its unique and mutually beneficial relationship with Sobeys. During fiscal 2011, Crombie REIT purchased 12 new free-standing and food-anchored properties for $104.0 million from Sobeys and subsidiaries of Empire. Sobeys and Crombie REIT work closely together throughout the development stage of all properties to ensure they meet the long-term interests of both organizations. For Sobeys, this ensures well-managed and well-maintained premises and the potential flexibility to expand or renovate when required. For Crombie REIT, the relationship ensures preferred access to new, high-quality properties that serve the everyday needs of local communities. At the end of fiscal 2011, Crombie REIT had first option on an additional 22 Sobeys properties representing $400 to $500 million of future acquisitions in the pipeline.

Financially, Crombie REIT posted another solid performance in its fiscal year ending December 31, 2010, with property revenues and net operating income reaching record levels amid an improving but still uncertain economy. Crombie REIT's cash flow and operating income contribution to Empire reached $26.7 million and $18.7 million in our fiscal year 2011, up from $24.9 million and $18.6 million a year earlier.

Today, more than 78 percent of the rentable space in Crombie REIT's portfolio is comprised of grocery or drugstore-anchored shopping plazas or free-standing grocery stores. The tenant quality is considered high with more than 36 percent of total annual minimum rents generated from a Sobeys banner.

We also continue to be pleased with our ownership interests in Genstar, which acquires property for development into master-planned residential communities. Genstar's operating income contribution to Empire increased 4.2 percent to $32.3 million in fiscal 2011. Genstar has a terrific, entrepreneurial management team with solid market knowledge and experience in creating long-term value. During the past year, Genstar management took advantage of attractive opportunities to bank land for future development, positioning the company well for future growth.

Investments and Other Operations

Investments and other operations' sales, primarily generated by Empire Theatres, equalled $189.0 million in fiscal 2011. During the fiscal year, Empire Theatres opened one new theatre and renovated two others. Empire Theatres continues to focus on its guests by improving guest service and offering the latest technology such as curved screens, stadium seating, digital and 3D projection, and mobile ticketing.

Capital Gains and Other Items

We recorded net capital gains and other items of $61.7 million in fiscal 2011 compared to $17.4 million last year. Fiscal 2011 marked the sale of our investment in Wajax Income Fund for net proceeds of $121.3 million and a net capital gain of $75.8 million; this was partially offset by store closure costs associated with the FreshCo roll-out and the rationalization of our distribution network in Ontario, totalling $15.7 million.

"Sobeys continued to grow sales through improvements to our food-focused offering, the expansion and modernization of our store and distribution networks and improved cost management and productivity initiatives."

– Bill McEwan

Frank C. Sobey
President,
ECL Properties Limited

Bill McEwan
President and CEO,
Sobeys Inc.

The Year Ahead

Going forward, we will continue to focus on long-term value creation in the businesses we know and understand. In food retailing, though pleased with our progress, we know there remains abundant opportunity to expand our national presence, while continuing to enhance our offering and achieve higher levels of productivity in our operations.

While there are early indications of inflation occurring across markets as retail prices reflect manufacturers' cost increases, Sobeys expects competition to continue to be strong. Accordingly, the team has accelerated their focus on the implementation of further cost and productivity initiatives. We remain passionate about the food retail business and Sobeys' objective to be widely recognized as the best food retailer in the country.

The outlook for our real estate division is similarly positive. Through our investment in Crombie REIT, we have the opportunity to enjoy the proven benefits of owning defensive, high-quality real estate which fosters steady cash flow growth and capital appreciation.

In addition to allocating capital to grow the value of our businesses, one of Empire's most important functions is to ensure that we recruit and develop strong management. Over the past year, two members of our senior management teams received special industry recognition. Pierre Sévigny, who recently retired as Senior Vice-President, Retail Operations and Development, Sobeys Québec, was named a 2010 recipient of the Golden Pencil Award – the Canadian grocery industry's highest honour. Stuart Fraser, President & CEO, Empire Theatres Limited, received the Pioneer Movie Industry Award from the Motion Picture Theatre Association of Canada. Over the past 27 years Stuart has built the Empire Theatres network from just a few locations in Atlantic Canada to 51 locations and 386 screens across the country.

In closing, on behalf of our shareholders, management and the Board, I would like to acknowledge the contribution of Christine Cross who will not be standing for re-election to the Board. Christine's counsel and advice to our Board and to management have been invaluable and we thank her for her distinguished service.

Finally, I would like to take this opportunity on behalf of our shareholders and the Board to extend our sincere appreciation to all of our employees, franchisees and affiliates of the Empire group of companies. Their infectious enthusiasm has been instrumental in creating a winning environment and truly represents our greatest competitive strength. With their continued support and dedication to serving our customers I am confident that Empire will continue to prosper in the years ahead.

Paul D. Sobey
President and CEO
Empire Company Limited
June 30, 2011